



A PHI Company

March 19, 2010

VIA HAND DELIVERY

Ms. Alisa C. Bentley, Secretary
Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, DE 19904

**RE: In the Matter of the Application of Delmarva Power & Light Company for Approval
of a Change in Electric Distribution Base Rates and Miscellaneous Tariff Changes
PSC Docket Nos. 09-414/ 09-276T**

Dear Ms. Bentley:

Enclosed for filing are the original and 10 copies of the Rebuttal Testimony of Delmarva Power & Light Company in the above referenced Docket. Please contact me at (302) 429-3786 with any questions relating to the above referenced matter.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Todd L. Goodman'.

Todd L. Goodman

cc: Service List – Overnight Mail and Email

ANTHONY J. KAMRICK

1 **DELMARVA POWER & LIGHT COMPANY**
2 **REBUTTAL TESTIMONY OF ANTHONY J. KAMERICK**
3 **BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION**
4 **CONCERNING AN INCREASE IN ELECTRIC BASE RATES**
5 **DOCKET NOS. 09-414/09-276T**

6

7 **1. Q: Please state your name and position, and business address.**

8 **A:** My name is Anthony J. Kamerick. I am Senior Vice President and Chief
9 Financial Officer of Pepco Holdings, Inc., (PHI) located at 701 9th Street NW,
10 Washington, D.C. 20001. I am testifying on behalf of Delmarva Power and Light
11 Company (Delmarva or the Company).

12 **2. Q: Did you previously submit direct testimony in this case?**

13 **A:** Yes.

14 **3. Q: What is the purpose of your rebuttal testimony?**

15 **A:** As the Company's overall policy witness, I will introduce the Company's
16 rebuttal witnesses and I will rebut portions of the direct testimonies filed by the
17 Commission Staff and the Division of Public Advocate (DPA), with a specific
18 focus on the financial implications of their recommendations. I will also address
19 the Staff's and DPA's rejection of the Company's proposed rate mitigation
20 proposal and the Volatility Mitigation rider (Rider VM) that was included in my
21 direct testimony. Finally, I will address employee compensation and Staff's
22 comments on the PHI Service Company costs and proposed Management Audit.

23 **4. Q: DPA's overall revenue requirement recommendation is approximately a**
24 **\$1.9M dollar decrease and Staff's is a \$5.1M dollar increase in base**
25 **distribution revenue. Please comment on the financial impact of these**

1 proposals on the Company and its ability to raise capital on reasonable
2 terms.

3 A: As stated in my Direct Testimony on page 4 and on page 6, the Company
4 invested approximately \$225 million in its Delaware transmission and distribution
5 system over the past three years in order to enhance reliability and to continue to
6 provide safe and reliable service to its customers. However, at current rates,
7 Delmarva's return on equity (ROE) of 3.16% is falling significantly short of the
8 10.00% ROE currently approved by the Commission. At this low rate of return,
9 the Company is at a competitive disadvantage when it comes to raising the
10 necessary capital, which ultimately is to the detriment of our customers. The
11 Company's rates for distribution service must reflect the current costs of
12 providing service. It is critically important for Delmarva to have the opportunity
13 to earn a fair return on its capital in order to be able to raise additional capital on
14 reasonable terms.

15 DPA's recommendations, if adopted, would have an extremely negative
16 effect on the Company's operations and its customers and would further lower
17 Delmarva's current cash flow.

18 Staff's overall revenue requirement proposal, while a small increase, is not
19 nearly sufficient to offset the Company's operating costs or support its capital
20 expenditures.

21 If adopted, these proposals would be viewed extremely negatively
22 by both the financial community and the rating agencies, and will cost the
23 Company's customers more in the long run in higher capital costs. In fact, in the

1 Company's 4th quarter earnings conference call, an analyst noted that: "Delaware
2 was a little aggressive...with respect to the decrease in ROE...." He further
3 inquired: "How does one think about the purpose of going in if the ROE is so
4 much lower? How should [the financial community and rating agencies] think
5 about that in terms of regulatory process?" This quote clearly reflects the concern
6 on the part of the financial community to these unreasonably low rate of return
7 recommendations.

8 **5. Q: What are the most significant recommendations of the Staff, DPA, and**
9 **Delaware Energy Users Group (DEUG) in terms of detrimental impacts on**
10 **the Company and its customers?**

11 A: The most significant recommendations in terms of detrimental impact are:
12 the unreasonably low rate of return recommendations of DPA Witness Crane,
13 Staff Witness Rothschild and DEUG Witness Gorman; and the positions of the
14 DPA and Staff to not accept reasonably known and measurable adjustments past
15 the end of the test period, contrary to the standard practice of this Commission.

16 **6. Q: Please comment on the importance of Commission adherence to reasonable,**
17 **consistent and predictable ratemaking practices.**

18 A: It is widely accepted that the rate-setting process must be forward
19 looking. This is because the primary purpose of setting utility rates is to provide
20 the utility an opportunity to earn the authorized rate of return. If Commissions do
21 not recognize in rates, rate-related (not volume-related) expense increases, and
22 non-revenue producing rate base additions that occur during the rate effective
23 period, the utility will not be allowed that opportunity. In fact, to not recognize

1 these added costs would virtually guarantee that the utility will fall short of its
2 authorized rate of return. This is why it is common utility commission practice to
3 either adjust the historical test period for known and measureable increases of this
4 nature, or to grant the utility use of a fully forecasted test period. Consistent with
5 this principle, and in order to make the test period more reflective of the period
6 when the new rates will be in effect, since at least the 1980's, the Commission has
7 consistently allowed adjustments outside of the test period for known and
8 measurable changes.

9 Moreover, as I stated in my Direct Testimony on page 22, the regulatory
10 environment is a very important factor to credit rating agencies in assessing the
11 credit quality of investor-owned utilities. In fact, Standard & Poor (S&P) has
12 indicated that the regulatory climate is perhaps the most important factor it
13 analyzes when evaluating investor-owned utilities. Included in S&P's evaluation
14 of the regulatory environment for utilities is the consistency and predictability of
15 rate treatment and decisions. If the Commission were to depart from its long-
16 established ratemaking practice of allowing adjustments outside of the test period
17 for known and measurable adjustments, it would clearly send an alarming signal
18 to the credit rating community of deterioration in the regulatory climate and,
19 therefore, a heightened uncertainty in the recovery of Delmarva's appropriately
20 incurred expenses and investments.

21 It is also important to understand that we rely upon consistency of rate
22 making treatment in our planning for, and operation of, Delmarva. By way of
23 example, a regulated utility must be able to rely upon ratemaking consistency for

1 budgeting, determining when rate increases are needed, and planning cash flow.
2 By this I am referring to the recovery of appropriately incurred costs; I am not
3 suggesting that ratemaking practices should be unreasonably inflexible and unable
4 to meet the changing needs of customers, the environment, the utility and the
5 State's energy goals. Decoupling is an excellent example where rate design
6 practices are changing to meet the needs of customers, the environment, the utility
7 and the State's energy goals. The numerous changes in established ratemaking
8 treatment advocated by Staff and DPA, however, are not supported by any
9 changing needs in the regulatory or energy environments, nor will they allow the
10 Company an opportunity to earn the authorized rate of return. Company Witness
11 VonStueben addresses the specific instances of inconsistency in more detail in his
12 rebuttal testimony.

13 7. Q: **Please comment on the Staff's, DPA's and DEUG's recommended ROE.**

14 A: The ROE's recommended in this proceeding by Staff, DPA and DEUG are
15 as follows: Staff 8.5%; DPA 7.52%; and DEUG 9.9% Staff's recommendation is
16 below any authorized electric company ROE reported by Regulatory Research
17 Associates (RRA) across the country since 1989, which is as far back as RRA
18 makes information available. DPA's recommendation is far lower than Staff's
19 recommendation. Both of these recommendations are outside the range of
20 reasonableness and would harm Delmarva and its customers if adopted. DEUG's
21 recommendation, while more reasonable, is still well below the market-required
22 ROE as shown by Dr. Morin, and well below the 10.5% average rate of return on
23 equity authorized in other jurisdictions around the country during the past two

1 plus years, as reported by RRA (See Schedule AJK R-1). Company Witness
2 Morin discusses in detail the flaws in the calculations of these three
3 recommendations in his rebuttal testimony.

4 **8. Q: Please comment on the Staff's recommended cost rate of long-term debt for**
5 **Delmarva**

6 A: Staff Witness Rothschild has made downward adjustments to the
7 Company's proposed cost of debt in this proceeding based on the advice he
8 received from Staff Witnesses Antonuk and Vickroy. As I will address in more
9 detail in my reply testimony on Ring Fencing,¹ this adjustment, if adopted, would
10 penalize Delmarva based on 20/20 hindsight. I wonder if Mr. Rothschild would
11 still be recommending such an adjustment if interest rates were considerably
12 higher today. The fact is that Delmarva cannot, and should not, engage in the
13 practice of playing an interest rate guessing game or, in this case, a high stakes
14 gamble that the economy will improve in time for our needs, when timing its
15 financing. We do not have a crystal ball and neither does Mr. Rothschild.

16 The bond offering completed in the fall of 2008 was needed at that time in
17 the judgment of Delmarva's management team to protect the Company's liquidity
18 during a time of a liquidity crisis and possible economic and banking industry
19 meltdown. This will be addresses in detail in my Ring Fencing reply testimony.

20 **9. Q: Please comment on Staff Witness Mullinax's recommendations for the**
21 **Commission to order a management audit of Delmarva.**

¹ The Parties to this Proceeding agreed that Staff would file its testimony on Ring Fencing on March 1, 2010 and the Company would provide its reply testimony on March 29, 2010 as a separate filing.

1 A: Staff Witness Mullinax states that the Company cannot provide reasonable
2 assurances that its allocated charges from the PHI Service Company are
3 reasonable. She recommends that the Commission order a management audit of
4 Delmarva, its operations, and the costs of the services being provided by the PHI
5 Service Company to determine whether the PHI Service Company is operating
6 efficiently and effectively.

7 As stated in my Direct Testimony on page 29, PHI conducted a study that
8 compared a peer group of utilities' A&G costs to Delmarva's A&G costs, which
9 included all of the A&G costs allocated from the PHI Service Company. The PHI
10 study was developed using FERC Form 1 data and was presented as Schedule
11 AJK-3. These data show that Delmarva's A&G cost ratios are consistently lower
12 than the average for both metrics used, including a percentage of retail revenues
13 and percentage of net plant, when compared to the peer group.

14 In addition, the Company engaged an independent benchmarking leader,
15 The Hackett Group, who recently completed a study of the PHI Service Company
16 A&G costs and concluded that PHI's costs are in line with its peers. This study
17 was provided to all parties in this case in response to Data Request No. DPA-A-
18 179. (See Schedule AJK R-2).

19 The Company is required to file with the Commission an annual report
20 detailing its transactions with all affiliates, including the PHI Service Company.
21 These transactions have been audited by an independent auditor and the reports
22 have been provided to the Commission for the years 1997, 1998, 2001, 2004, and
23 2007.

1 Moreover, compliance with the Company's Cost Allocation Manual, and
2 in particular the Service Company, have been the subject of many independent
3 audits since 1998. Since the merger between Atlantic City Electric (ACE) and
4 Delmarva, the Service Company was audited by the Securities Exchange
5 Commission (SEC) in 1998, 1999 and 2005; external auditors for the New Jersey
6 Board of Public Utilities (NJBPU) in 2000 and 2002; and,
7 PriceWaterhouseCoopers and Ernst and Young for the Maryland Public Service
8 Commission for the 12 months ending September 2008.

9 Currently, PHI is in the final stage of an audit from the NJBPU for the
10 years 2005-2008. Since the filing of the Company's direct testimony, the
11 Division of Audits within the Office of Enforcement of the Federal Energy
12 Regulatory Commission began an audit of PHI, including the Service Company
13 and the affiliated companies. This audit began in November 2009 and is expected
14 to conclude in 2010.

15 The expenditure of additional time, money (audit costs range from
16 \$200,000 - \$800,000) and resources to conduct another audit would clearly be
17 wasteful and unproductive. Moreover, there has been no material or substantive
18 findings from any of these multiple audits to indicate evidence of waste, bad faith
19 or an abuse of discretion. As such, there is no justification to require the
20 Company to undertake a costly and unnecessary management audit as recommend
21 by Staff Witness Mullinax.

22 **10. Q: Please explain the Company's alternative mitigation plan – Rider VM.**

1 A: As explained in my Direct Testimony on pages 9 and 30 and further
2 explained by Company Witness VonSteuben on page 39 of his Direct Testimony,
3 the Company proposed a ratemaking alternative to recover the costs of three
4 expenses that are extremely volatile and are largely outside of the Company's
5 control – pension, other post employment benefits (OPEB) and uncollectible
6 expenses. This mitigation proposal would reduce the amount of the rate increase
7 being requested in this proceeding by \$6.618 million. Under this proposal,
8 Delmarva would recover a rolling three-year average of costs for pension, OPEB
9 and uncollectible expenses in the form of a rider - Rider VM. Company Witness
10 VonSteuben's Direct Testimony explains how the Rider VM would operate.

11 **11. Q: What are the positions of the DPA and Staff regarding Rider VM?**

12 A: Both the DPA and the Staff recommend that the Company's mitigation
13 proposal be rejected. Staff Witness Mullinax argues that while pension and
14 OPEB expenses are influenced by market returns and interest rates, these
15 expenses are not wholly beyond the Company's control, and that the Company's
16 management does exercise influence over the levels of pension, OPEB and
17 uncollectible expenses. She also claims that this type of rider removes risk from
18 shareholders and places it on the customers; that this would be a departure from
19 long-standing test period ratemaking precedent; and that it would reduce the
20 Company's cost containment incentives. DPA Witness Cotton claims that this
21 mitigation plan is simply a reimbursement plan and is therefore contrary to sound
22 regulation.

23 **12. Q: What is the Company's response to these criticisms?**

1 A: These criticisms ignore the benefits to customers of the proposal. While
2 not the same type of mitigation proposal that the Staff submitted in the last case,
3 (Docket No. 05-304), the Company's proposed alternative would nonetheless
4 reduce the amount of the needed rate increase in this proceeding. This mechanism
5 is a better way of handling expenses that by their very nature increase and
6 decrease. This would benefit both customers and Delmarva because cost recovery
7 will be accurate under this proposed mechanism.

8 **13. Q: Please comment on Staff Witness Mullinax's testimony that Rider VM**
9 **reduces the Company's cost containment incentive and that these costs are**
10 **not beyond the Company's control.**

11 A: Pension and OPEB costs are driven largely by two factors that are clearly
12 out of management's control: 1) the discount rate used to value pension and
13 OPEB liabilities, which is based entirely on prevailing interest rates; and 2) the
14 performance of the pension and OPEB investments, the return on which lowers
15 the expenses. A mere 25 basis point change in the discount rate changes PHI's
16 pension liability by \$40 million. In addition, a 10% change in the value of PHI's
17 pension trust will affect its annual pension expense by approximately \$10 million.
18 Management cannot control the performance of the financial markets. Therefore,
19 though management has a role in the determination of some of the actuarial inputs
20 to the expense computation and in the basic structure of the plans, the most
21 significant factors driving the expense levels are not controllable by management,
22 and any harmful effects on management incentives to control costs.

23 **14. Q: What is your conclusion on the Rider VM?**

1 A: There can be no dispute that these expenses show great variability and are
2 beyond the Company's control. The Rider VM mitigation mechanism provides a
3 better match of the costs and recovery and will also delay the need for rate case
4 filings and lengthen the time between rate cases. Based on these facts, I
5 recommend that the Commission adopt this alternative ratemaking proposal.

6 **15. Q. Please comment on the parties' recommendations regarding the Company's**
7 **compensation programs.**

8 A. Company Witness Jenkins will provide Rebuttal Testimony regarding the
9 efforts the Company undertakes to insure that its compensation programs are
10 comparable to programs found in the industry and in the region. I would also note
11 that Delmarva is in competition for skilled personnel and, if we do not provide
12 comparable compensation programs, we will be at an unacceptable disadvantage
13 in the labor market. Our most critical resources are our employees. Therefore, it
14 is vital that we offer attractive compensation plans in order to recruit and retain a
15 skilled and motivated workforce. Attracting and maintaining skilled employees
16 through a reasonable compensation plan is a clear benefit to customers. Mr.
17 Jenkins addresses this issue in more detail in his Rebuttal Testimony.

18 **16. Q: Please identify the Company's rebuttal witnesses.**

19 A: Company Witness Roger A. Morin rebuts the recommendations of the
20 witnesses for the Commission Staff, DEUG, and DPA on rate of return and return
21 on equity issues.

22 Company Witness W. Michael VonSteuben will provide a complete listing
23 of all uncontested adjustments. He will also address DPA Witness Cotton's and

1 Staff Witness Mullinax's failure to recognize known and certain changes
2 occurring outside of the test period. He will also provide Rebuttal Testimony to
3 the contested adjustments and proposals made by DPA Witness Cotton, Crane and
4 Staff Witness Mullinax. In addition, Company Witness VonSteuben is
5 responsible for quantifying the revenue requirements of the Company's rebuttal
6 position and will address Staff Witness Mullinax's position on including the
7 Wilmington Franchise Tax in the factor used to develop the final revenue
8 requirement in this proceeding.

9 Company Witness William Gausman will rebut DPA Witness Cotton's
10 and Staff Witness Mullinax's testimony on adjustments to Reliability Plant
11 Closings.

12 Company Witness Ernest L. Jenkins, Sr. will rebut DPA Witness Cotton's
13 and Staff Witness Mullinax's testimony on compensation, executive
14 compensation and supplemental executive retirement plan issues.

15 Company Witness Joseph F. Janocha will rebut portions of the testimony
16 of witnesses for DPA, Staff and Walmart on rate design issues.

17 Company Witness Elliott P. Tanos will address Staff Witness Howard
18 Solganick's claims of deficiencies in the Company's Cost of Service Study.

19 Company Witness Jay Ziminsky will rebut portions of the testimony of
20 witnesses for DPA and Staff on pension expense issues.

21 17. **Q: Does this conclude your rebuttal testimony?**

22 A: Yes, it does.

Average Equity Returns Authorized January 1990 - December 2009**Schedule AJK R-1**

Year	Period	Electric Utilities		Gas Utilities	
		ROE %	(# Cases)	ROE %	(# Cases)
1990	Full Year	12.70	(44)	12.67	(31)
1991	Full Year	12.55	(45)	12.46	(35)
1992	Full Year	12.09	(48)	12.01	(29)
1993	Full Year	11.41	(32)	11.35	(45)
1994	Full Year	11.34	(31)	11.35	(28)
1995	Full Year	11.55	(33)	11.43	(16)
1996	Full Year	11.39	(22)	11.19	(20)
1997	Full Year	11.40	(11)	11.29	(13)
1998	Full Year	11.66	(10)	11.51	(10)
1999	Full Year	10.77	(20)	10.66	(9)
2000	Full Year	11.43	(12)	11.39	(12)
2001	Full Year	11.09	(18)	10.95	(7)
2002	Full Year	11.16	(22)	11.03	(21)
	1st Quarter	11.47	(7)	11.38	(5)
	2nd Quarter	11.16	(4)	11.36	(4)
	3rd Quarter	9.95	(5)	10.61	(5)
	4th Quarter	11.09	(6)	10.84	(11)
2003	Full Year	10.97	(22)	10.99	(25)
	1st Quarter	11.00	(3)	11.10	(4)
	2nd Quarter	10.54	(6)	10.25	(2)
	3rd Quarter	10.33	(2)	10.37	(8)
	4th Quarter	10.91	(8)	10.66	(6)
2004	Full Year	10.75	(19)	10.59	(20)
	1st Quarter	10.51	(7)	10.65	(2)
	2nd Quarter	10.05	(7)	10.54	(5)
	3rd Quarter	10.84	(4)	10.47	(5)
	4th Quarter	10.75	(11)	10.40	(14)
2005	Full Year	10.54	(29)	10.46	(26)
	1st Quarter	10.38	(3)	10.63	(6)
	2nd Quarter	10.68	(6)	10.50	(2)
	3rd Quarter	10.06	(7)	10.45	(3)
	4th Quarter	10.39	(10)	10.14	(5)
2006	Full Year	10.36	(26)	10.43	(16)
	1st Quarter	10.27	(8)	10.44	(10)
	2nd Quarter	10.27	(11)	10.12	(4)
	3rd Quarter	10.02	(4)	10.03	(8)
	4th Quarter	10.56	(16)	10.27	(15)
2007	Full Year	10.36	(39)	10.24	(37)
	1st Quarter	10.45	(10)	10.38	(7)
	2nd Quarter	10.57	(8)	10.17	(3)
	3rd Quarter	10.47	(11)	10.49	(7)
	4th Quarter	10.33	(8)	10.34	(13)
2008	Full Year	10.46	(37)	10.37	(30)
	1st Quarter	10.29	(9)	10.24	(4)
	2nd Quarter	10.55	(10)	10.11	(8)
	3rd Quarter	10.46	(3)	9.88	(2)
	4th Quarter	10.54	(17)	10.27	(15)
2009	Full Year	10.48	(39)	10.19	(29)

PSC DOCKET NOS. 09-414 & 09-276T
DIVISION OF THE PUBLIC ADVOCATE'S
FOLLOW UP DATA REQUESTS TO
DELMARVA POWER & LIGHT COMPANY

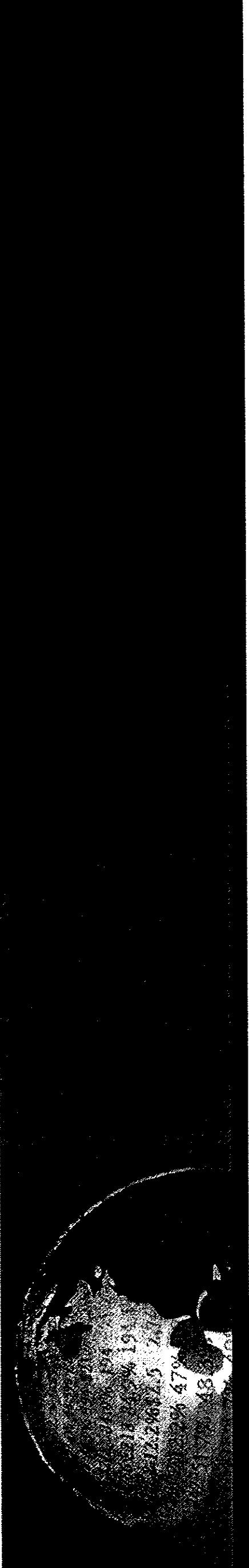
Question No. : DPA-A-179

Regarding the response to DPA-A-79, concerning Productivity Studies, please provide a copy of the Summary pages of the five most recent productivity studies.

RESPONSE:

See attachment for a 2009 benchmarking study performed by The Hackett Group. The study involved analysis of Pepco Holdings Inc.'s Administrative and General functions in five major areas (Finance, Human Resources, Information Technology, Procurement and Executive & Corporate Services).

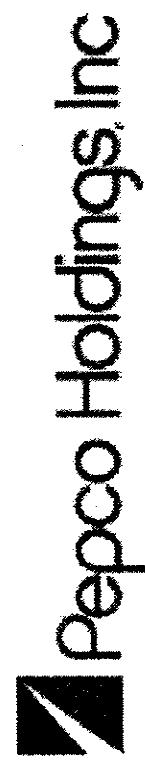
Respondent: W. Michael VonSteuben



DPA-A-179

G&A Benchmark Results

Presented to:



Presented by:

The Hackett Group

February 4, 2009

The Hackett Group

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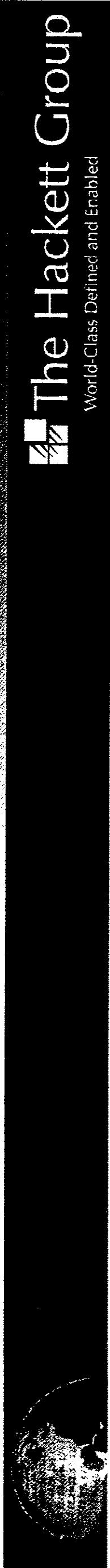
- Section One
 - Benchmark Background & Objectives
- Section Two
 - Benchmark Results
- Section Three
 - Results by Function
- Section Four
 - Appendix

The Hackett Group

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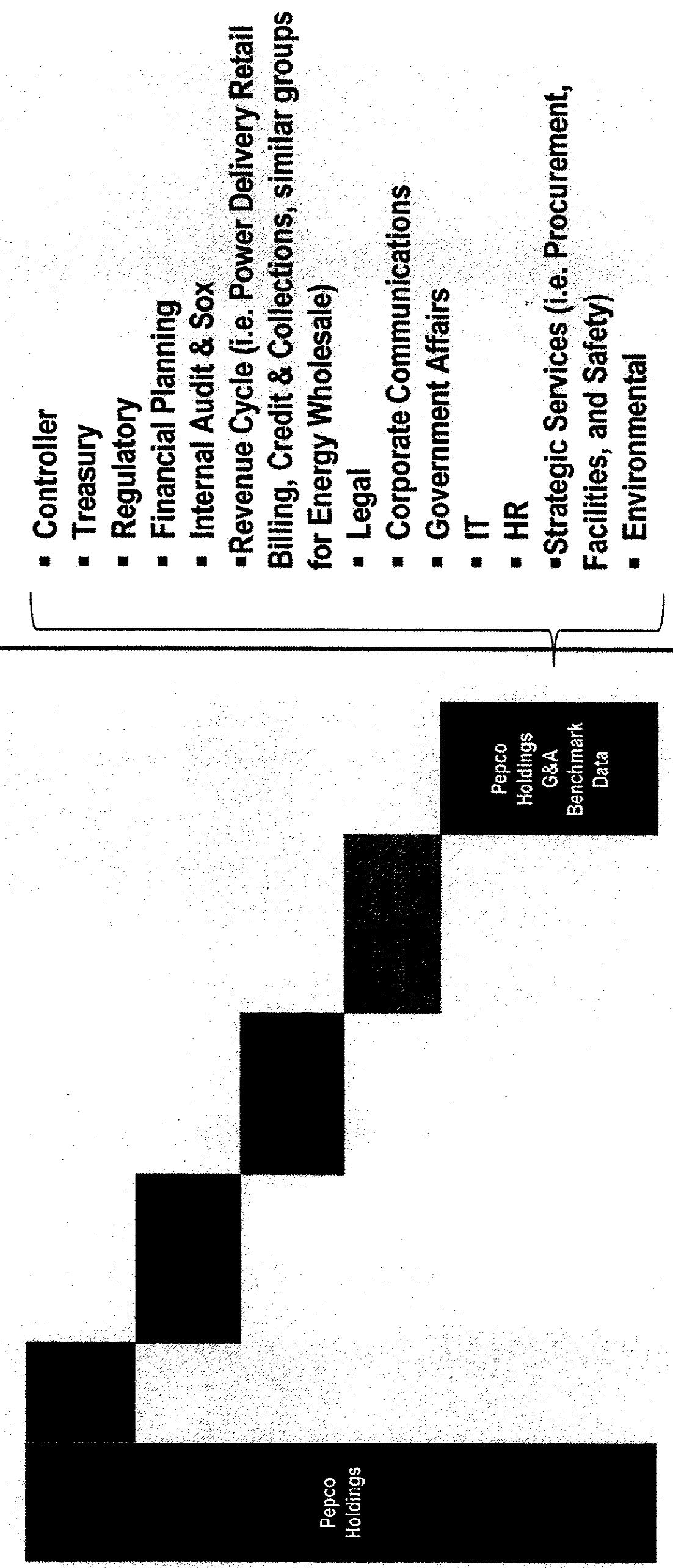
Objectives in Completing the Benchmark

- Establish a baseline of Pepco Holdings' General and Administrative organization
 - Identify staff mix and resource allocation
 - Identify key cost drivers
- Compare Pepco Holdings' General & Administrative functions to peer group organizations

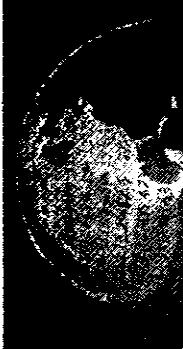


Pepco Holdings Benchmark Scope

PHI Service Company - Benchmark Scope



- The benchmark period for which costs, full-time equivalents ("FTEs"), practice related and volume data were collected was calendar year 2007 (December 31, 2007).



The Hackett Group

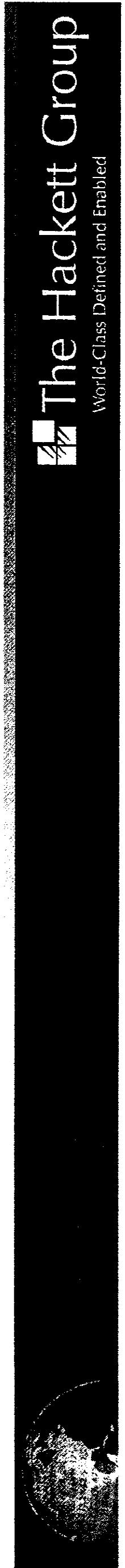
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Data was Collected in Accordance With Hackett's G&A Taxonomy for Comparability; Processes are Defined End to End

General and Administrative Scope	
Finance	<ul style="list-style-type: none"> ▪ Cash Disbursements – Accounts Payable – Travel and Expenses – Revenue Cycle – Credit – Customer billing – Collections – Cash Application ▪ Accounting and External Reporting – Fixed Assets – Intercompany accounting – General ledger accounting – Cost Accounting – External Reporting ▪ Tax Management ▪ Treasury Management – Cash Management – Capital & Risk Management – Compliance Management – Internal & External Audit ▪ Planning & Performance Management – Business Analysis ▪ Function Management
Human Resources	<ul style="list-style-type: none"> ▪ Total Rewards Administration – Payroll Services ▪ Data Mgmt., Reporting & Compliance – Staffing Services – Labor Relations ▪ Workforce Development Services – Organizational Effectiveness – Total Rewards Planning ▪ Strategic Workforce Planning – Function Management
Information Technology	<ul style="list-style-type: none"> ▪ Technology Infrastructure – Infrastructure Management – End User Support – Infrastructure Development ▪ Application Management – Application Maintenance – Application Development & Implementation – Planning & Strategy – Quality Assurance – Risk Management – IT Business Planning – Enterprise Architecture Planning – Emerging Technologies ▪ Function Management
Executive & Corporate Services	<ul style="list-style-type: none"> ▪ General Administration Management – Travel and Transportation Services ▪ Real Estate & Facilities Management – Government Affairs – Legal ▪ Quality Management – Risk and Security Management ▪ Corporate Communications – Planning and Strategy ▪ Executive



Capture Staffing and Costs as defined regardless of where they are organizationally located.



Pepco Holdings' G&A Functions are Compared to Custom Utility Organizations

- Peer Group Median - this comparison is **against your organization's custom peer group**
- Normalization of benchmark data: Peer data are adjusted to "drivers" at your organization.
 - Finance & ECS: Revenue
 - Human Resources: Employees
 - Procurement: Spend
 - Information Technology: End Users

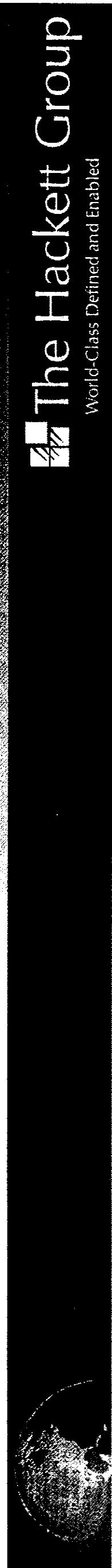
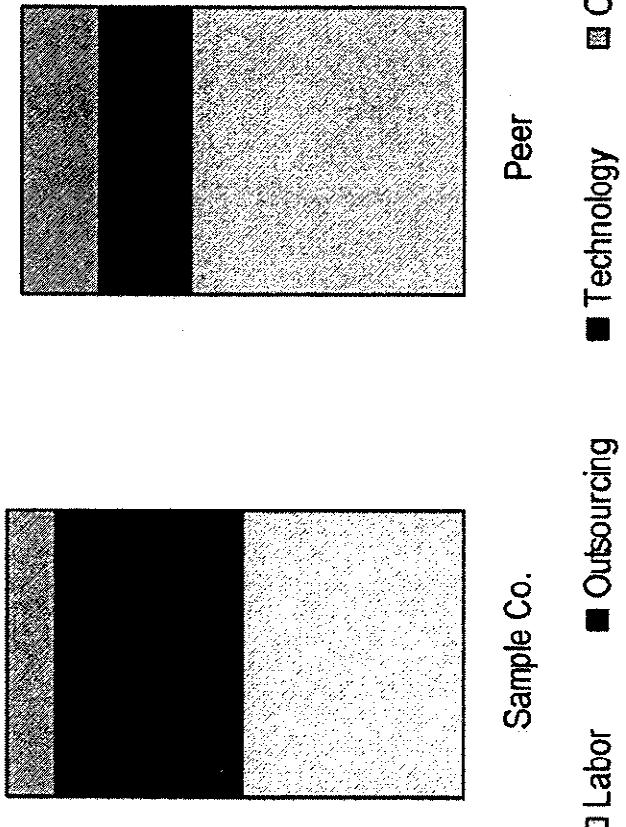


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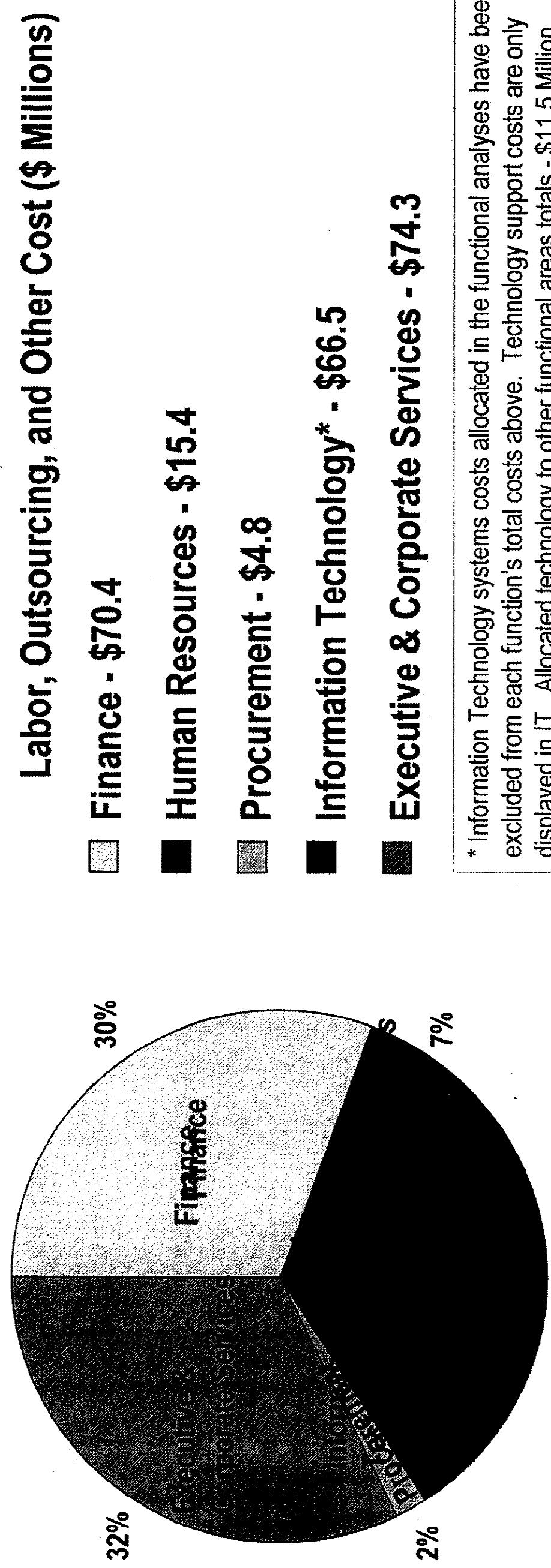
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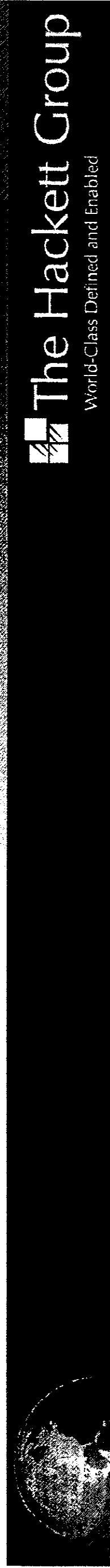
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G&A Cost is \$231.4 Million*, or 2.5% of Revenue

Total G&A Cost: \$231.4 Million



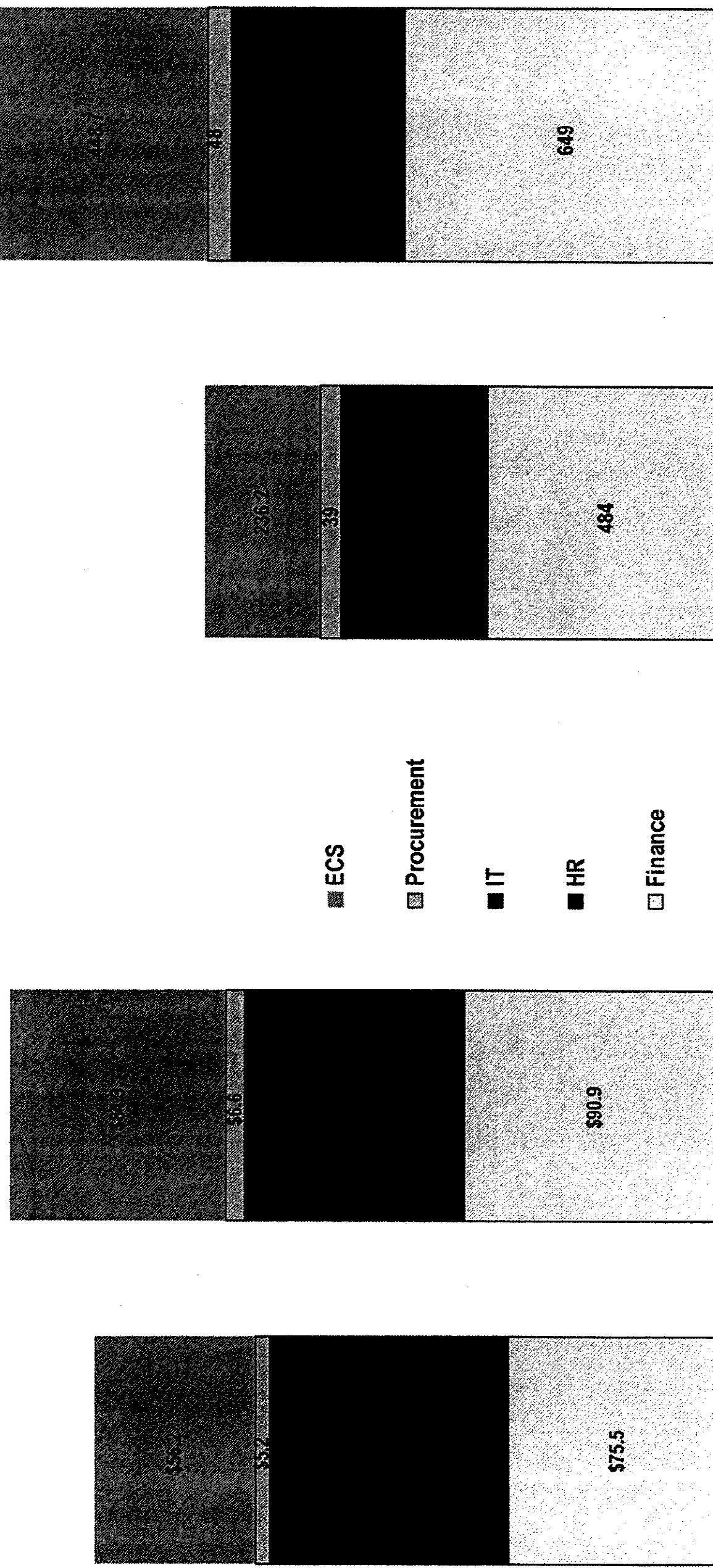
Revenue = \$9.4 Billion
Employees = 4,807
End Users = 5,080
Spend = \$900 Million



Comparable Aggregate G&A Costs and Staffing Levels Are Lower Than the Benchmark Comparisons

Total cost by function (in millions)

Total Full Time Equivalents (FTEs) by function
(excludes Outsourcing)



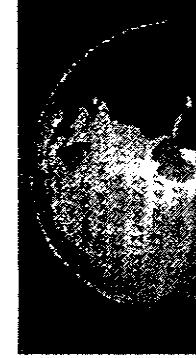
Pepco Holdings

Peer Group

Pepco Holdings

Peer Group

NOTE: Information Technology systems costs have been included for each function and captured in full for IT. Pepco Holdings' costs are actual. Peer data is normalized to Pepco Holdings' revenue (\$9.4 Bil), end users (5,080), employees (4,807) and spend (\$900 Mil).

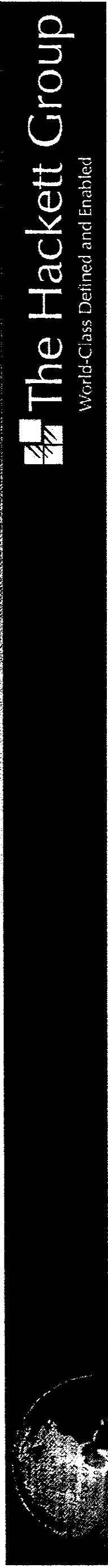


The Hackett Group

World-Class Defined and Enabled

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 - Benchmark Background & Objectives
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 - Benchmark Results
- Section Three
 - Results by Function
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 - Appendix



Finance

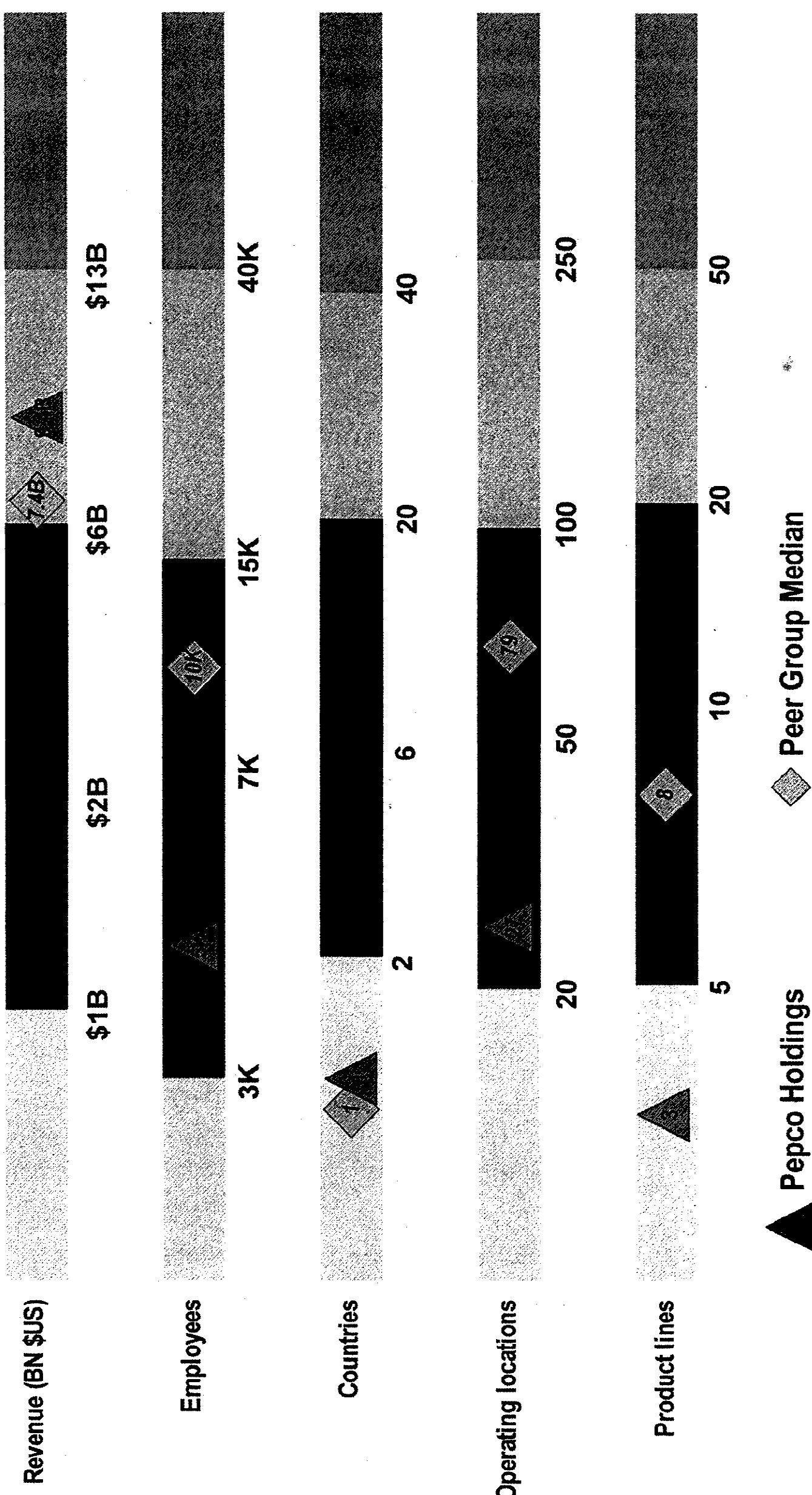
The Hackett Group



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Finance Demographics



Peer Group Finance Participants

- Ameren Corporation
- Detroit Edison Company (Currently DTE)
- Exelon Corporation
- OGE Energy Corporation
- CMS Energy
- We Energies
- Constellation Energy Group Group
- Florida Power & Light Company (Currently FPL)
- PSEG Corporation

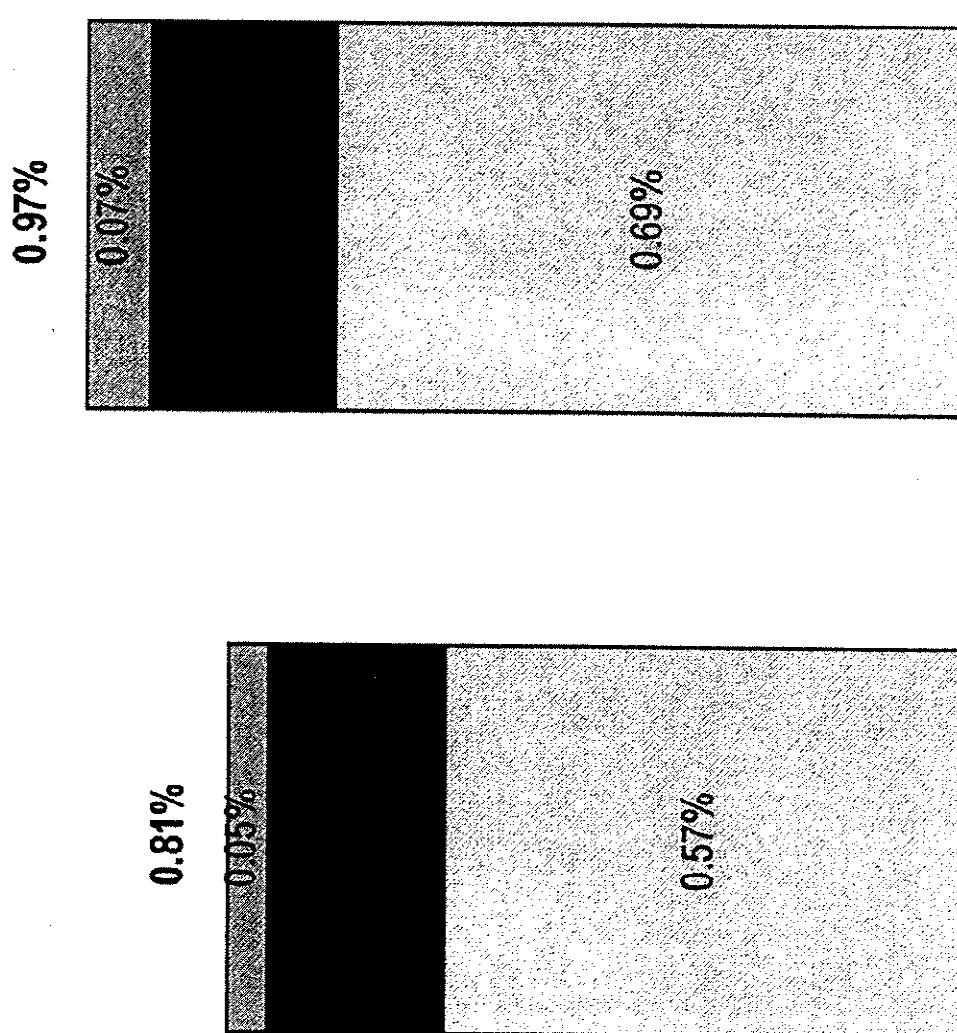


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Finance Cost as a Percent of Revenue by Quartile

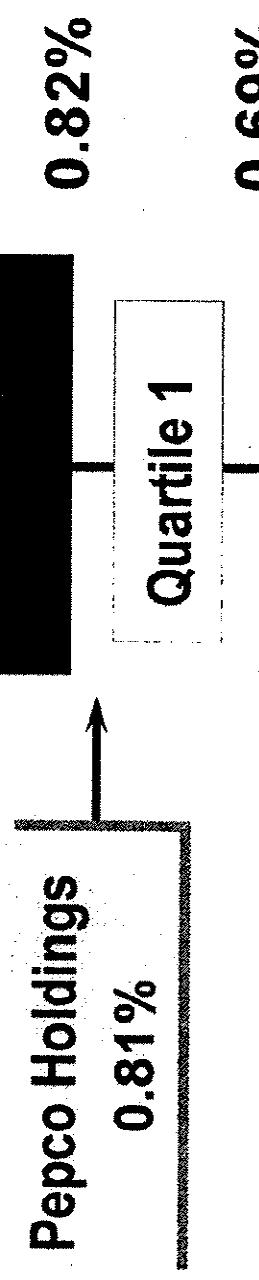
Finance Cost as a % of Revenue

Peer Group
Quartile Breakdown as a % of Revenue

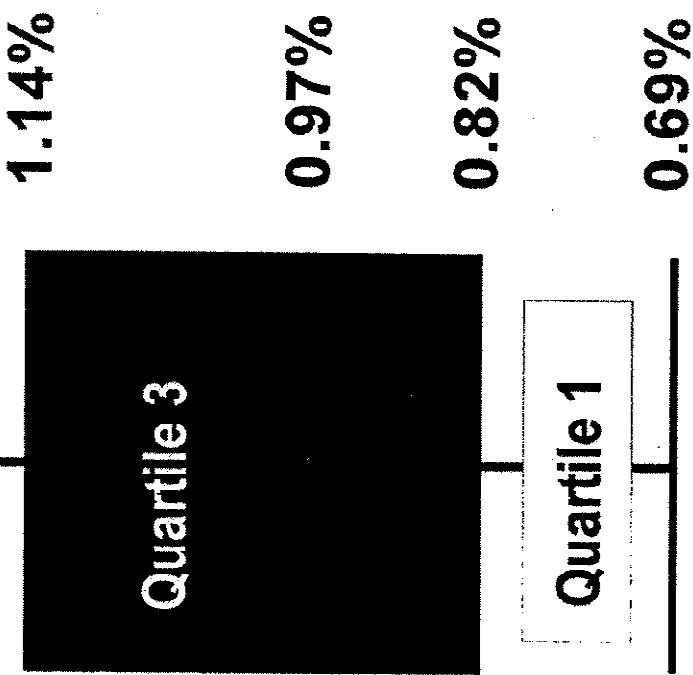
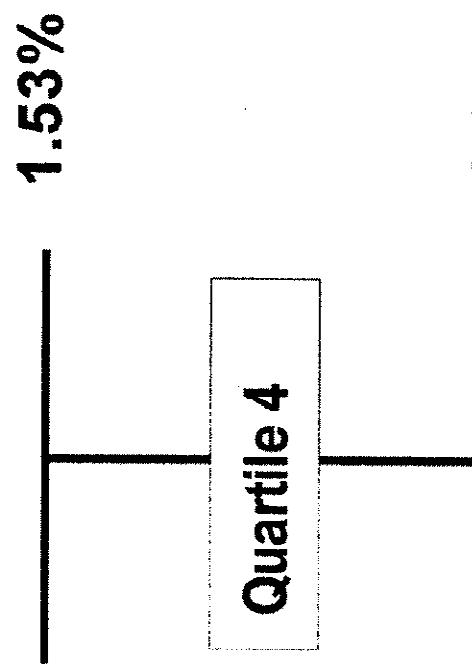


Peer Group
Pepco Holdings
0.81%
0.69%
0.57%
0.81%
0.97%
0.97%
0.81%
0.69%

- Labor
- Outsourcing
- Technology
- Other



Peer Group
Quartile Breakdown as a % of Revenue

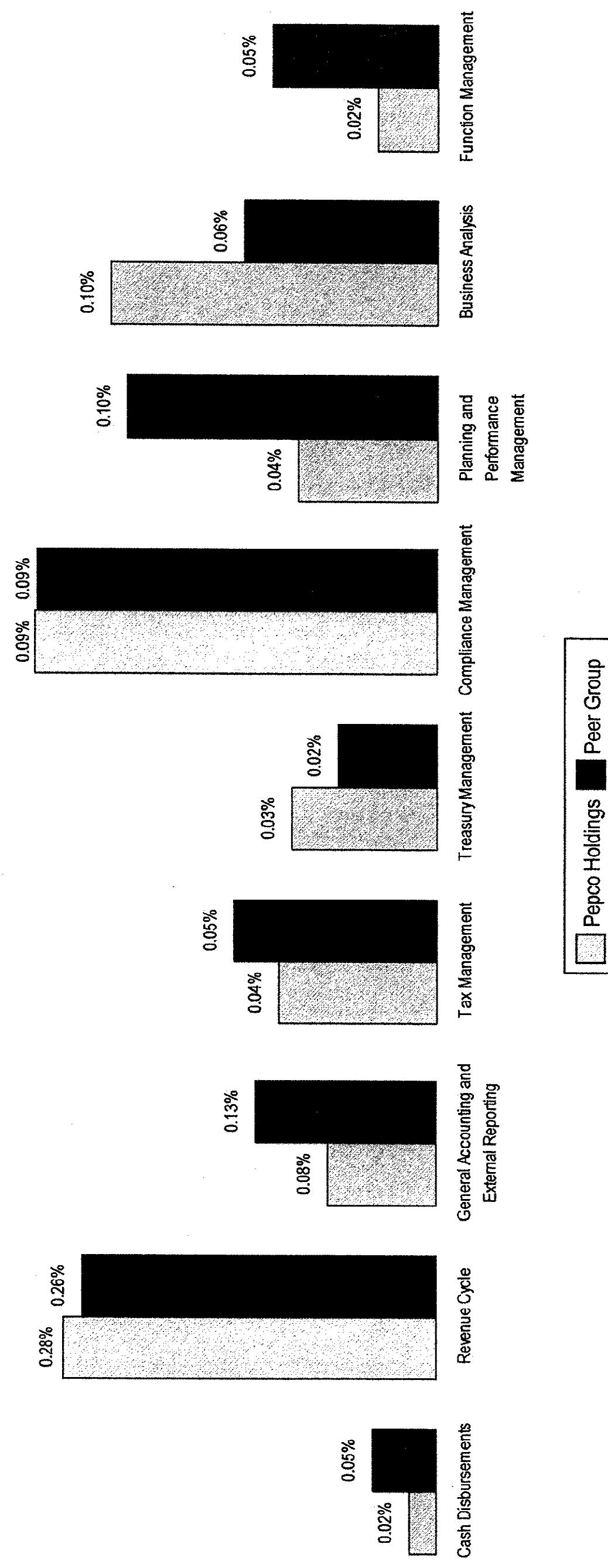


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Process Cost as a % of Revenue

Process Cost as a % of Revenue

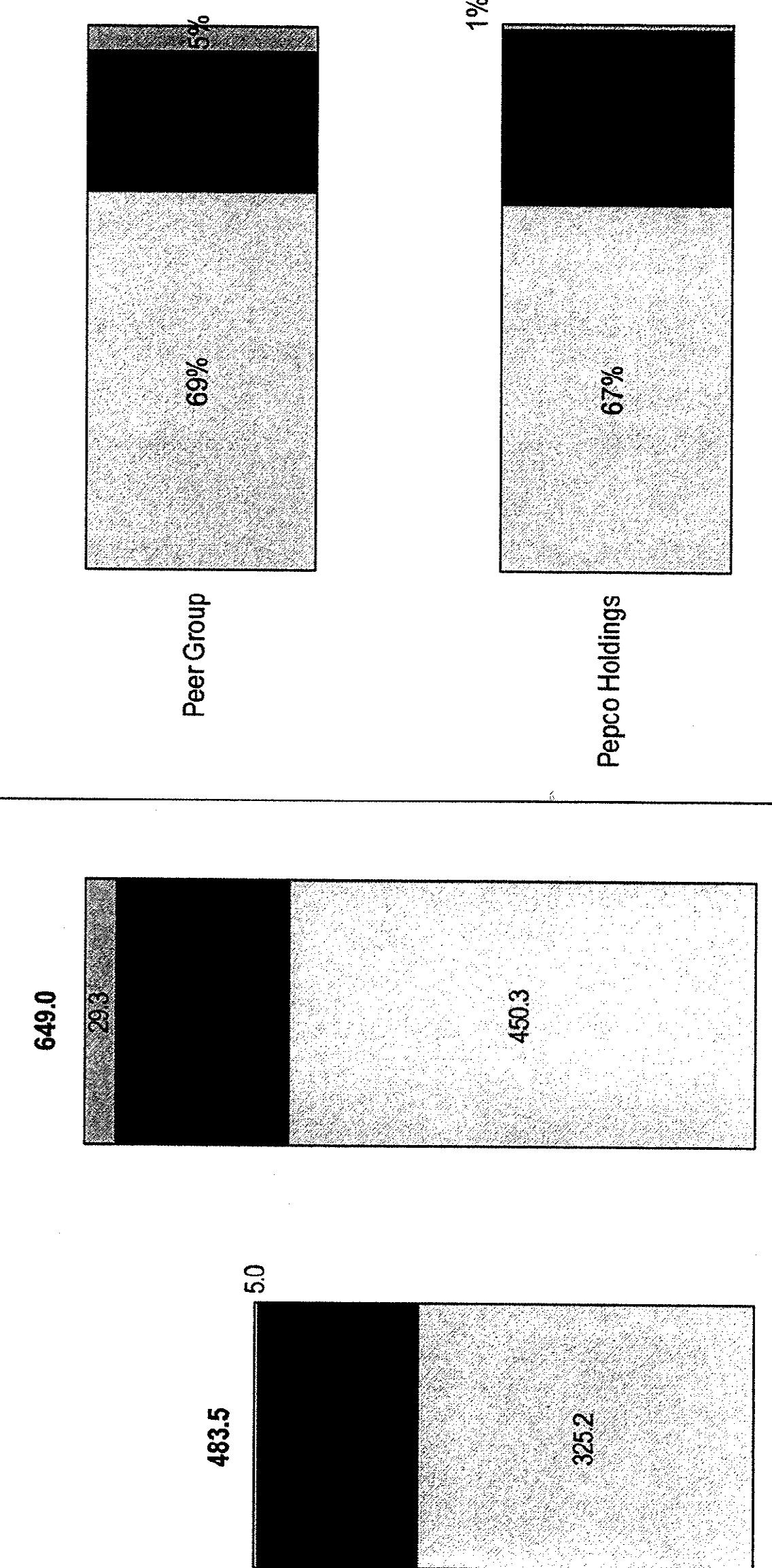


The Hackett Group

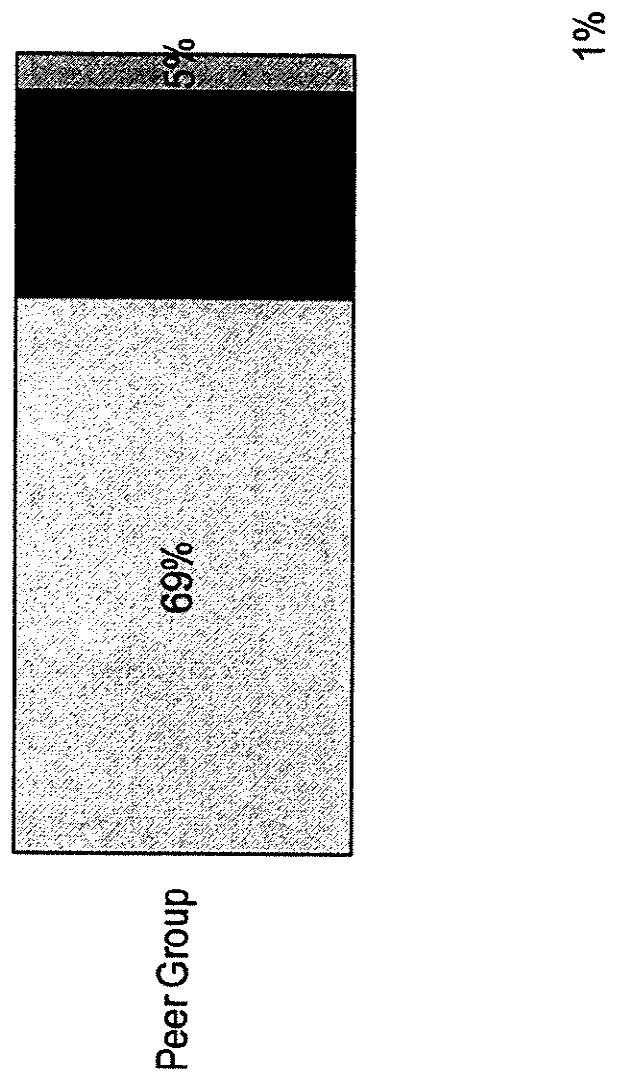
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Finance Staffing and Resource Allocation

Finance Staffing (FTEs)
Peer Group Normalized based on Revenue



Finance Resource Allocation

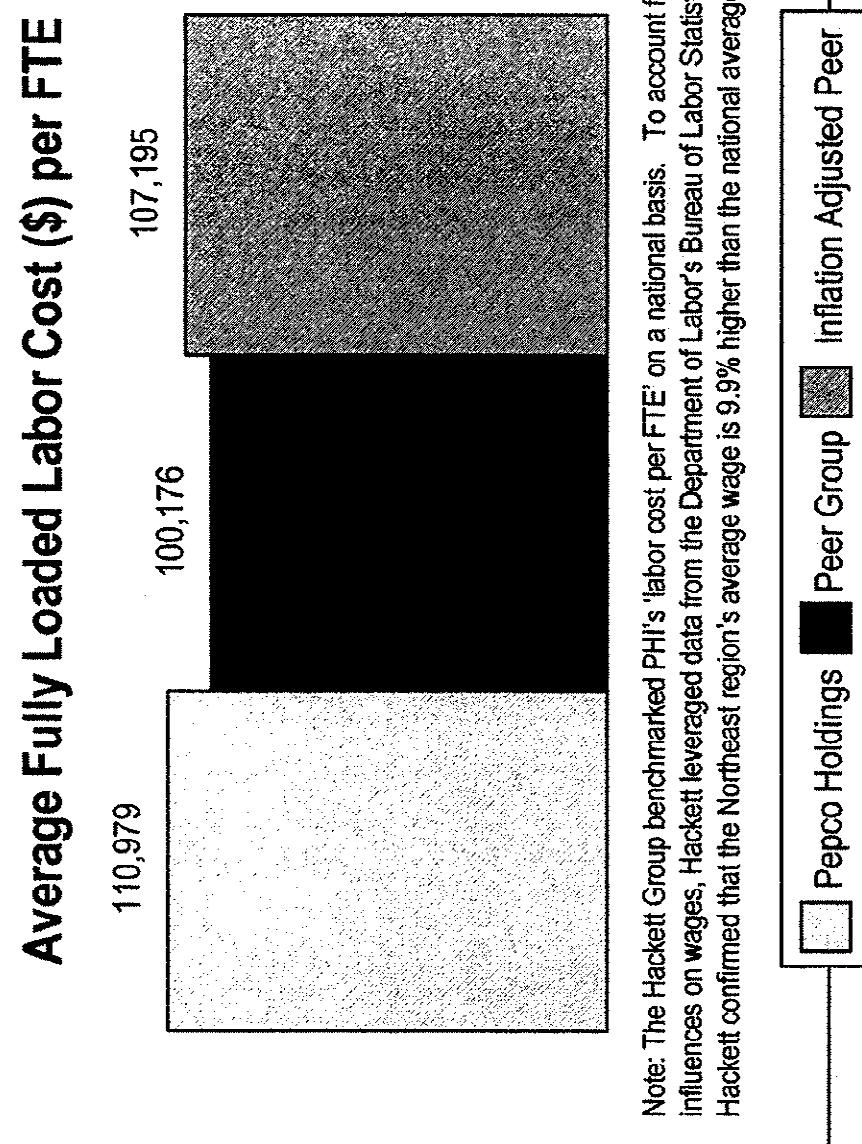
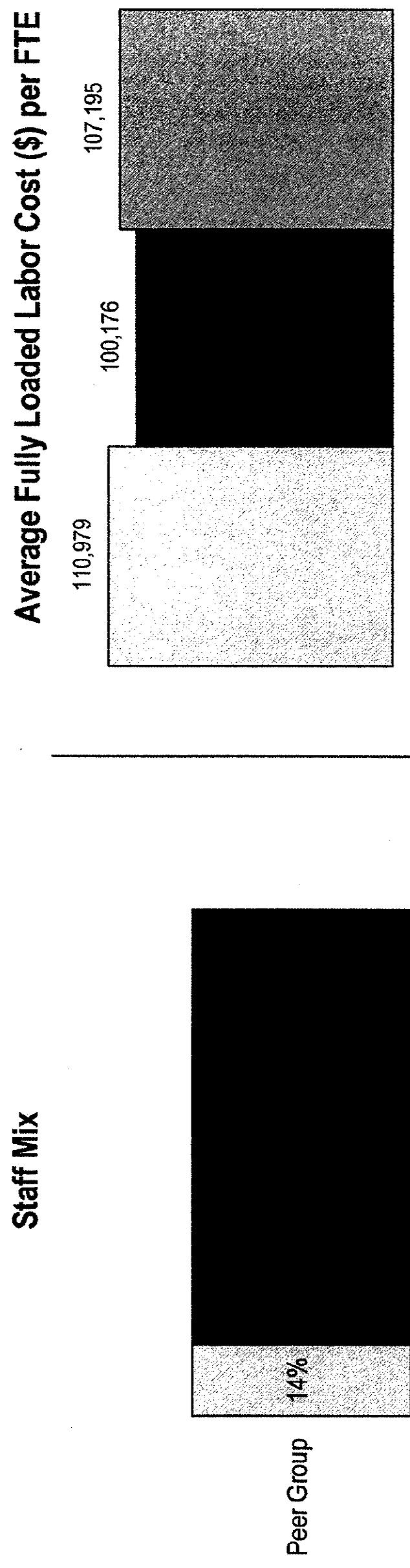


- Transaction Processing
- Control and Risk Management
- Planning and Strategy
- Function Management

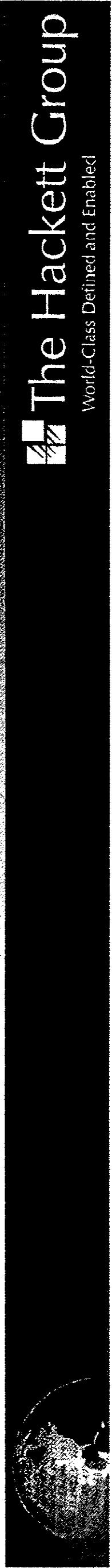
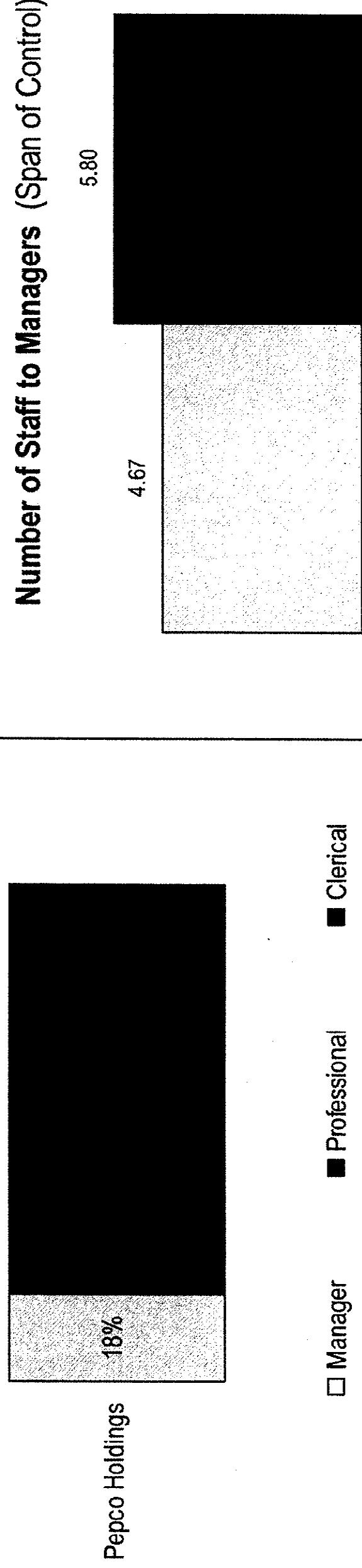


Staff Mix, Labor Rates and Spans of Control

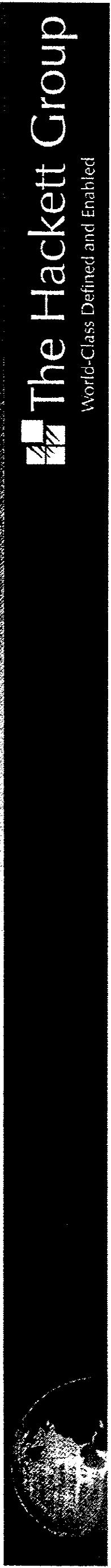
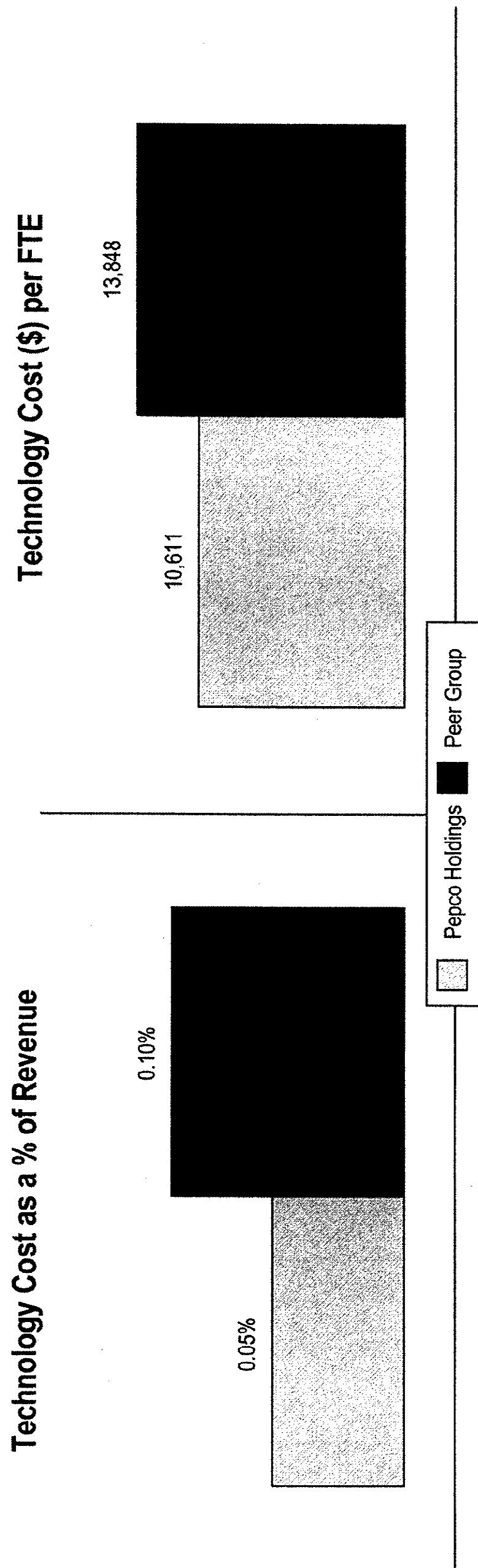
Staff Mix



Number of Staff to Managers (Span of Control)



Technology Cost as a Percent of Revenue and Cost per Finance FTE



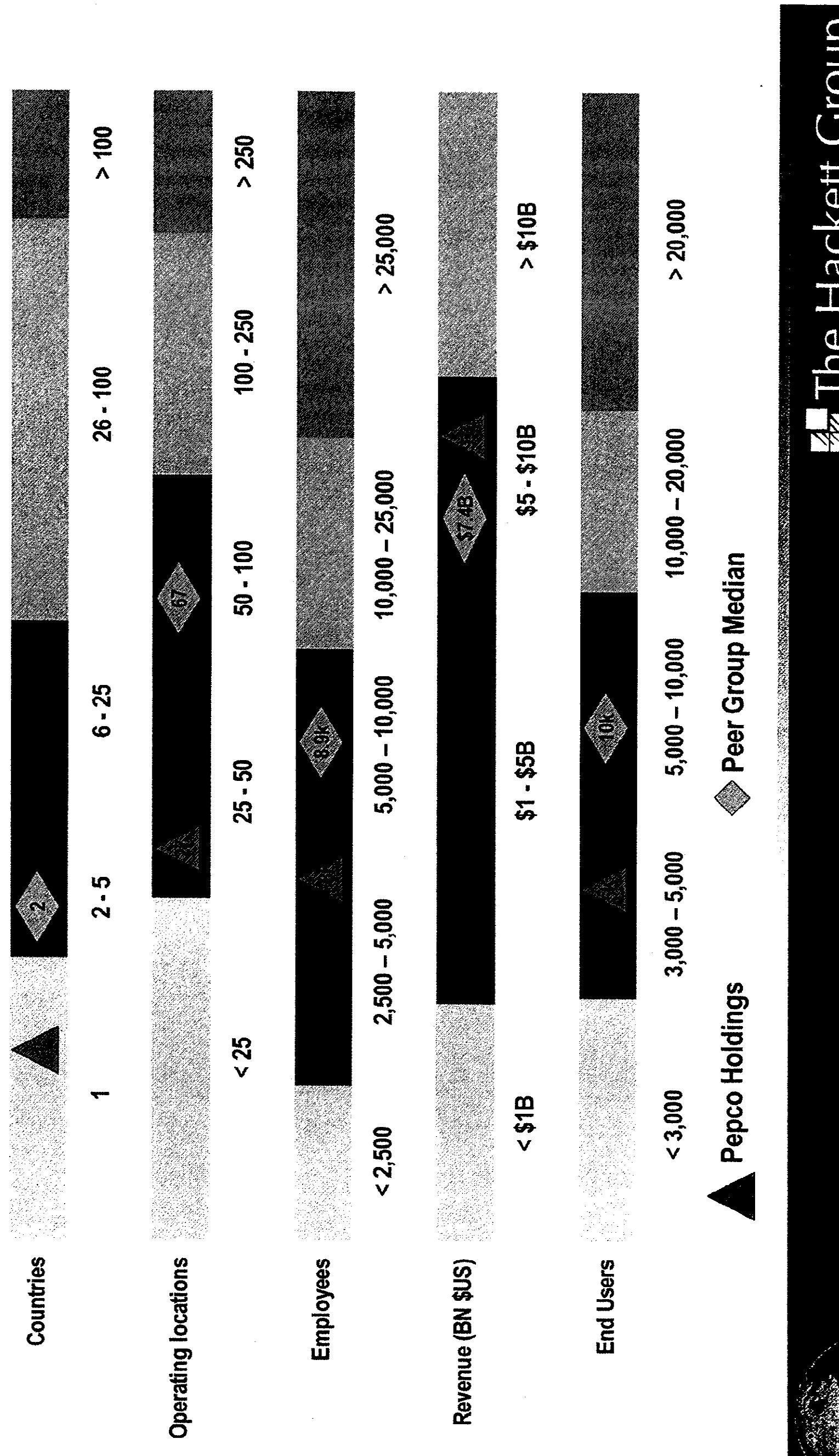
Information Technology

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IT Demographics

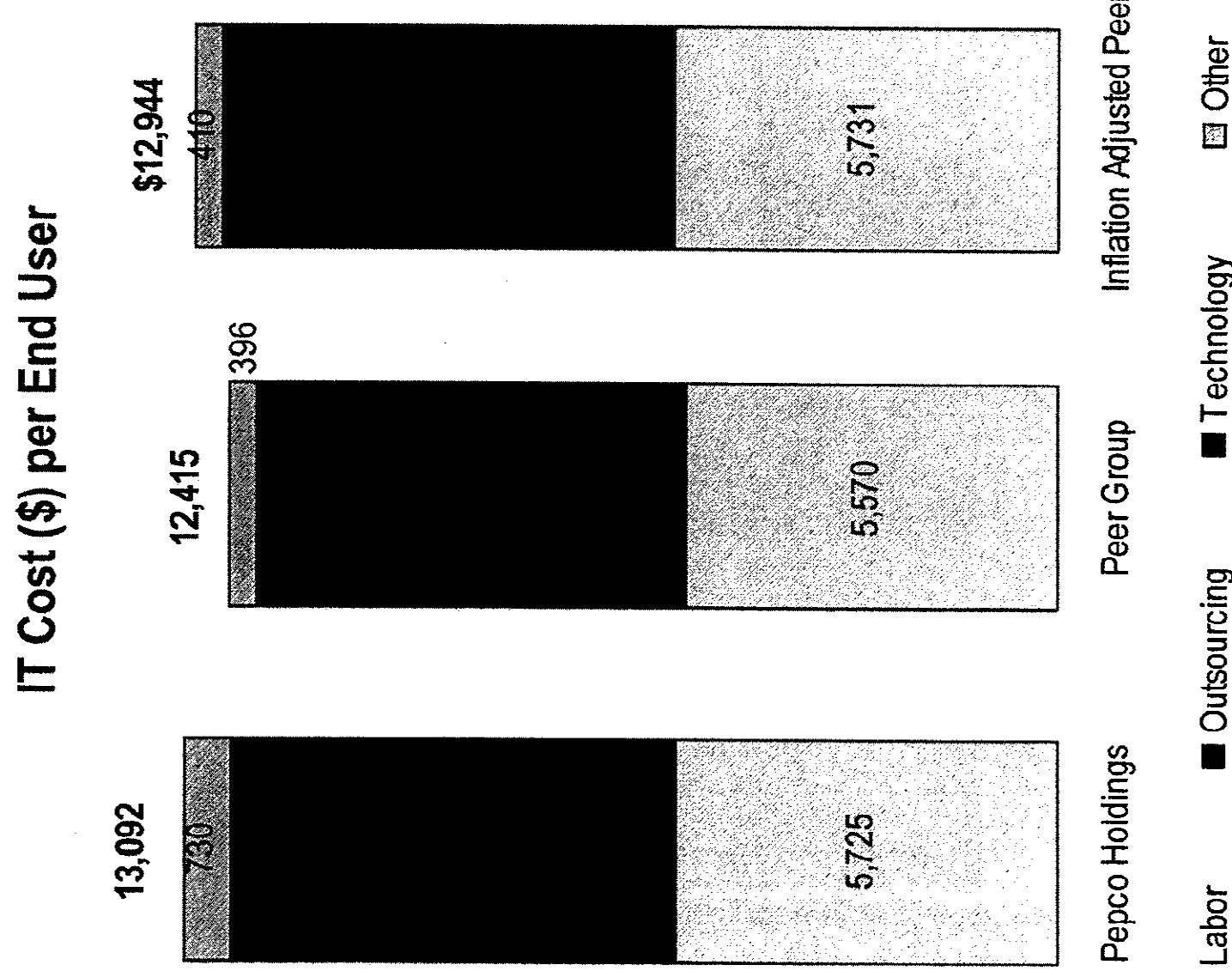


Peer Group IT Participants

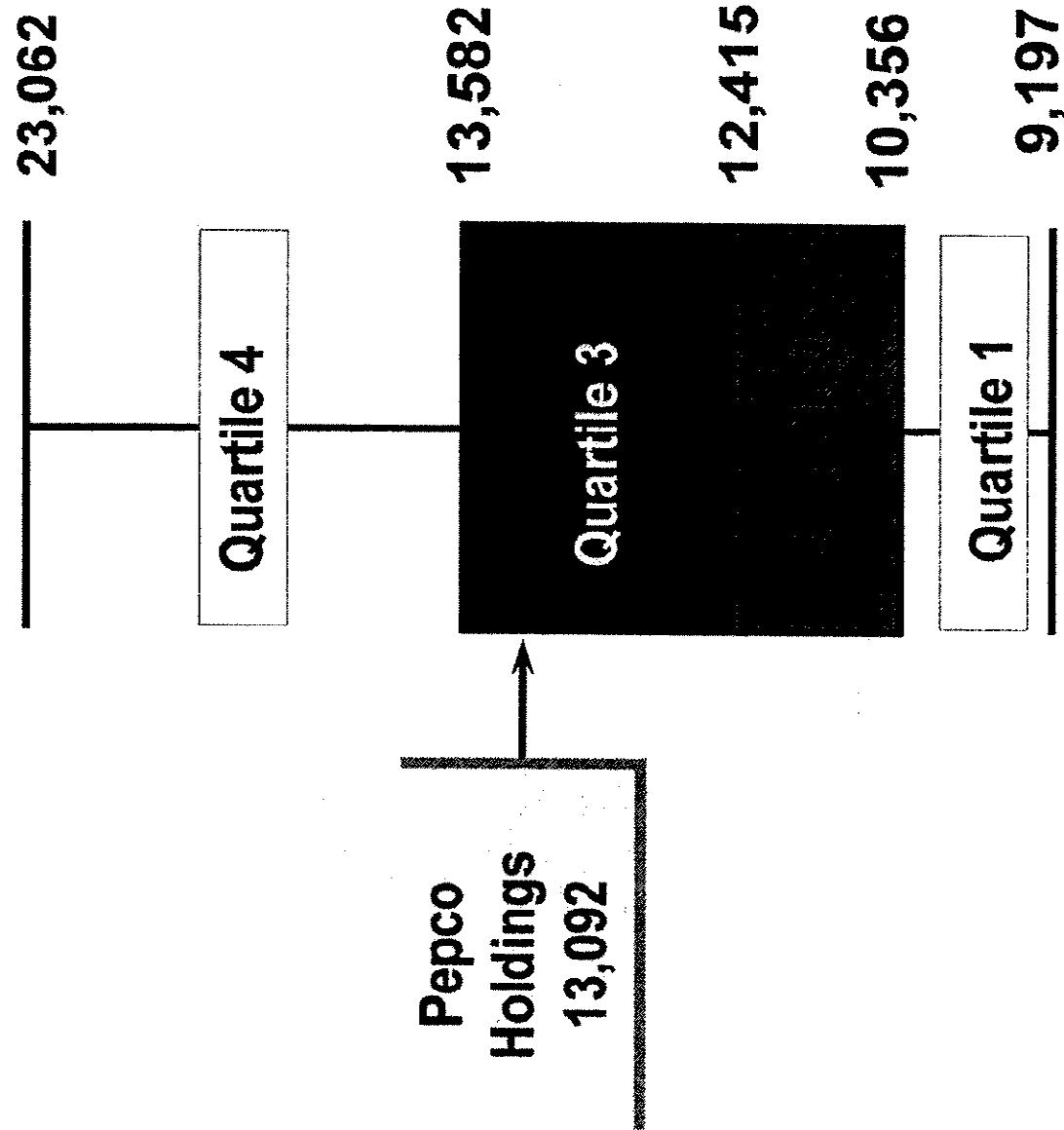
- CMS Energy
- Duke Energy Corporation
- We Energies
- Constellation Energy Group
- Florida Power & Light Company (Currently FPL)
- Ameren Corporation
- Detroit Edison Company (Currently DTE Energy)
- OGE Energy Corporation



IT Cost per End User by Quartile



Peer Group Quartile Breakdown
IT Cost (\$) per End User



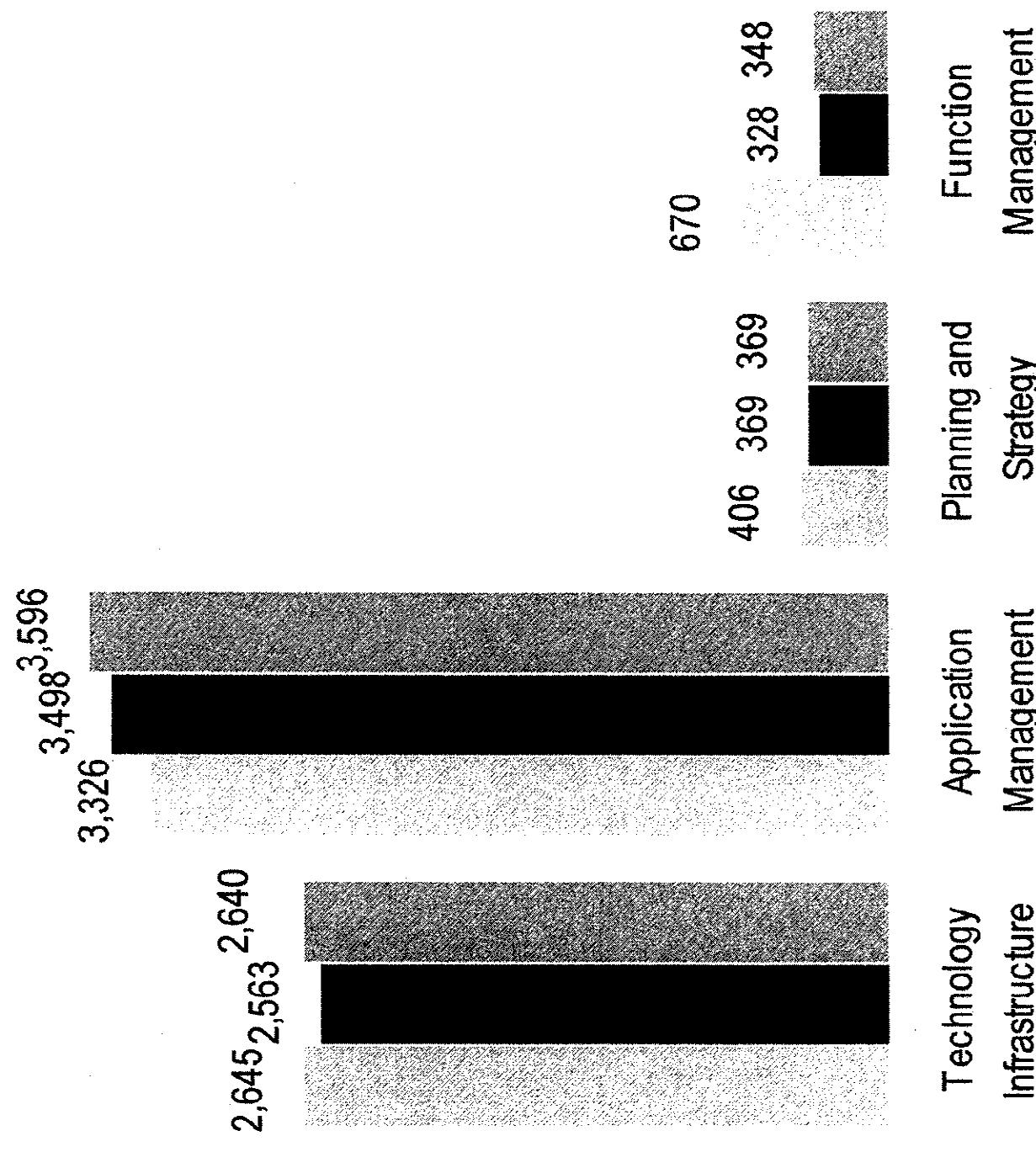
Pepco Holdings
13,092

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IT Process Cost Allocation per End User

IT Process Cost Allocation (\$) per End User
(includes labor and outsourcing)



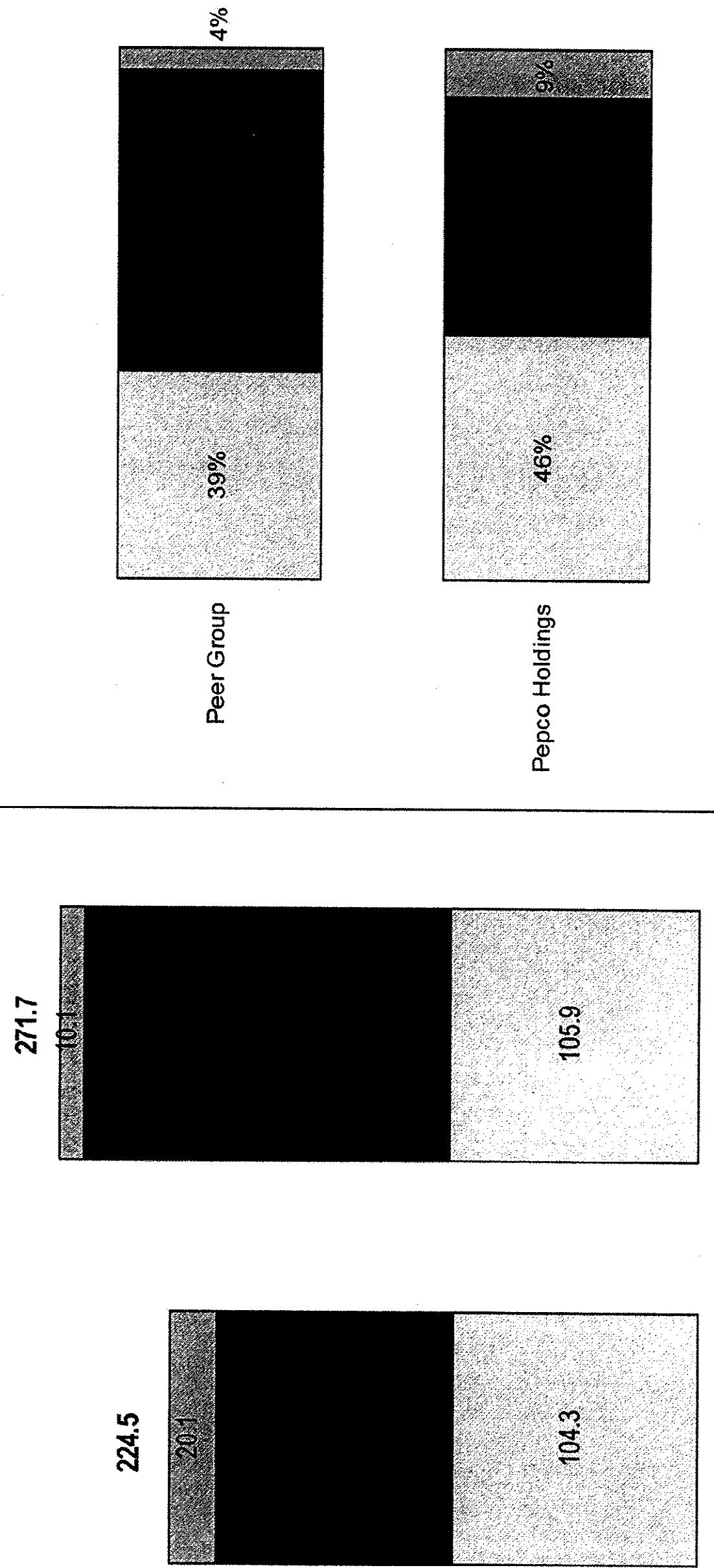
Pepco Holdings ■ Peer Group ■ Inflation Adjusted Peer

The Hackett Group

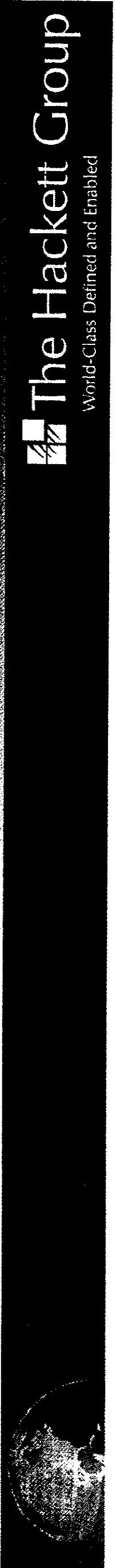
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IT Overall Staffing and Resource Allocation

IT Resource Allocation



- Application Management
- Function Management
- Technology Infrastructure
- Planning and Strategy
- Application Management
- Function Management
- Technology Infrastructure
- Planning and Strategy



Staff Mix, Labor Rates and Spans of Control

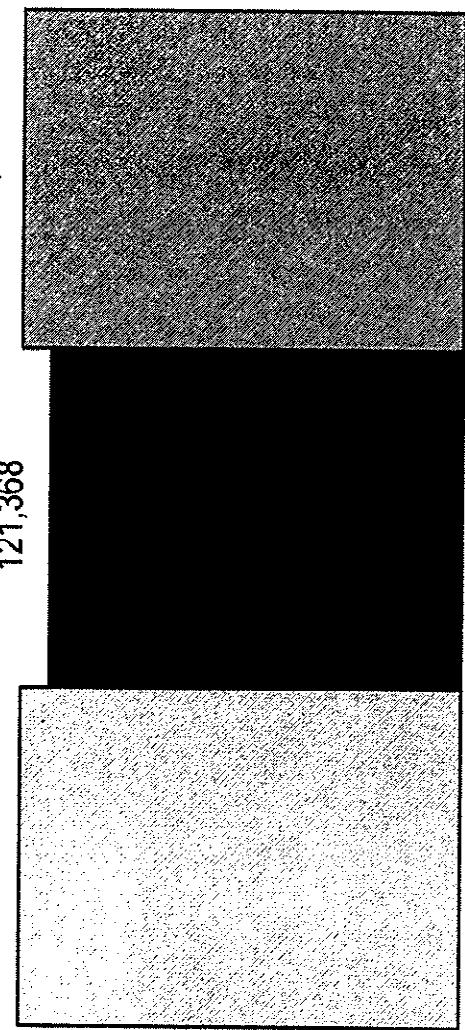
Staff Mix



Average Fully Loaded Labor Cost (\$) per FTE

129,549

121,368

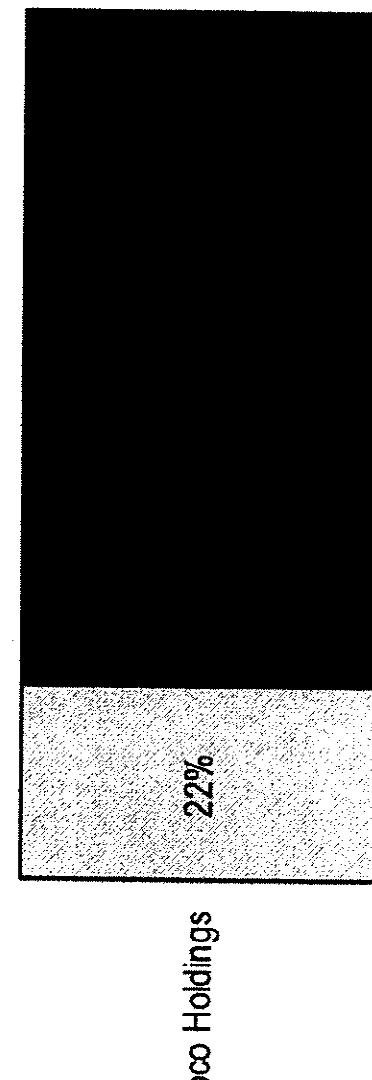


Note: The Hackett Group benchmarked PHI's 'labor cost per FTE' on a national basis. To account for regional influences on wages, Hackett leveraged data from the Department of Labor's Bureau of Labor Statistics. Hackett confirmed that the Northeast region's average wage is 9.9% higher than the national average labor rate.

Number of Staff to Managers (Span of Control)

6.10

3.50

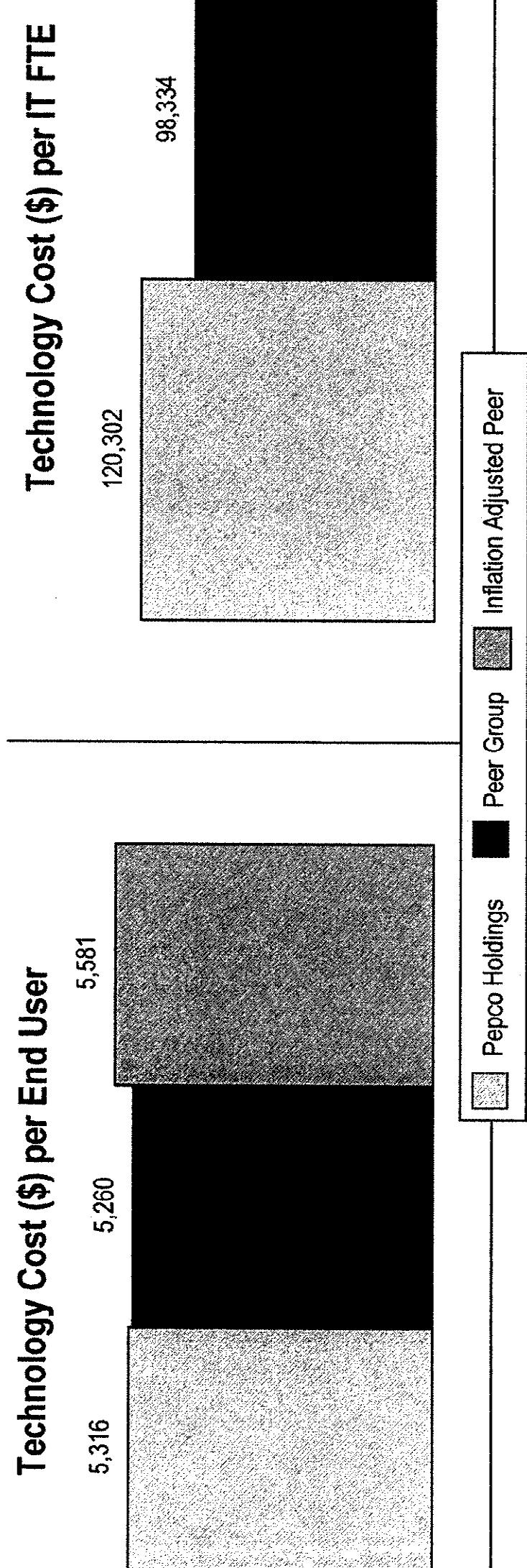


 **The Hackett Group**

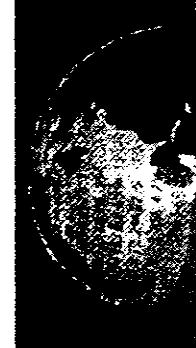
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Technology Cost per End User and Technology Cost per FTE



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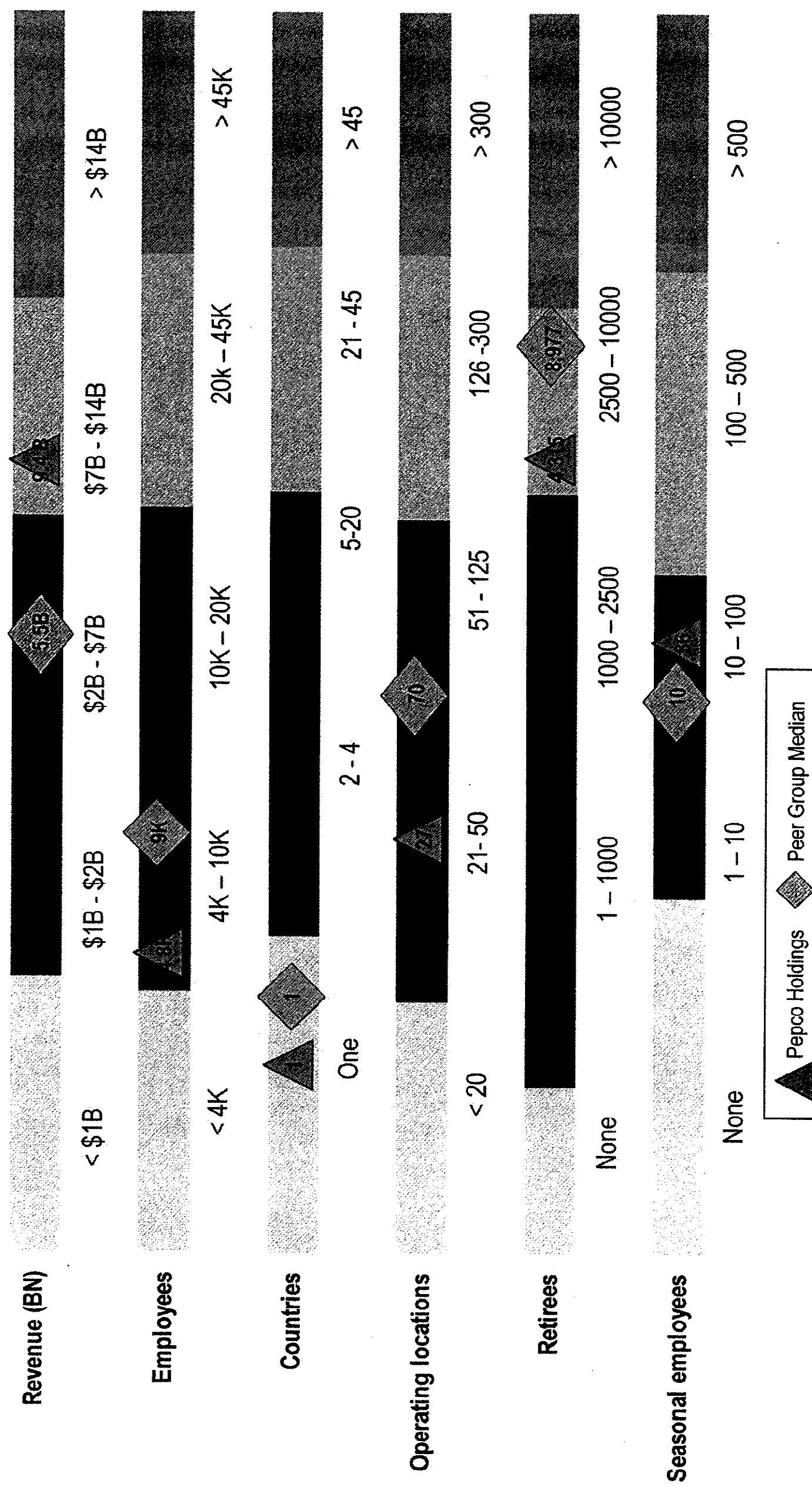
Human Resources

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HR Demographics



The Hackett Group

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Peer Group HR Participants

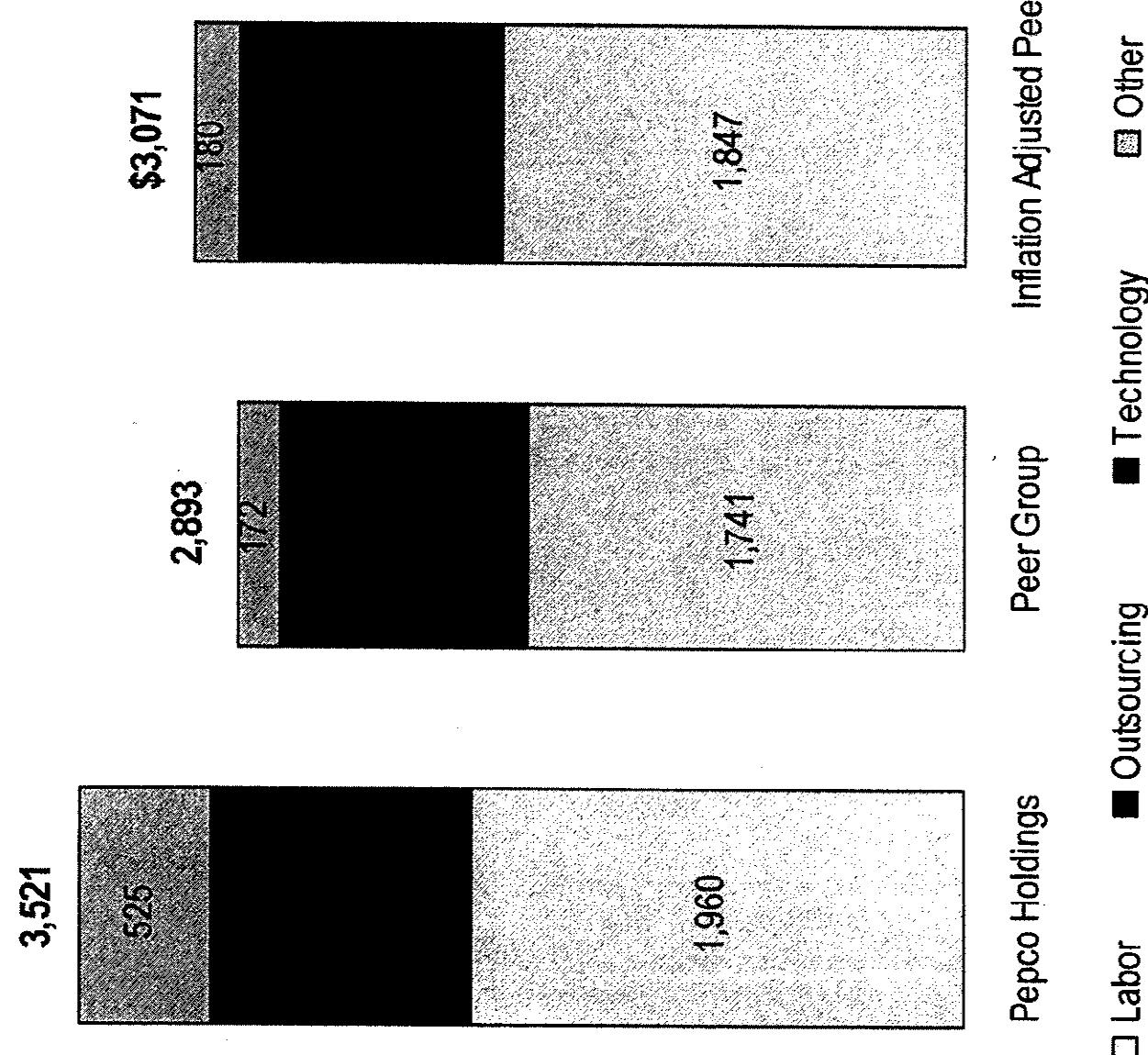
- Constellation Energy Group
- Detroit Edison Company (Currently DTE Energy)
- OGE Energy Corporation
- Exelon Corporation
- We Energies
- CMS Energy Corporation (Currently CMS Energy)
- Ontario Power Generation Inc.
- Ameren Corporation



HR Cost per Employee Places Pepco Holdings in the Third Quartile on a Pure Cost Basis

HR Cost (\$) per Employee

Quartile* Cost (\$) per Employee



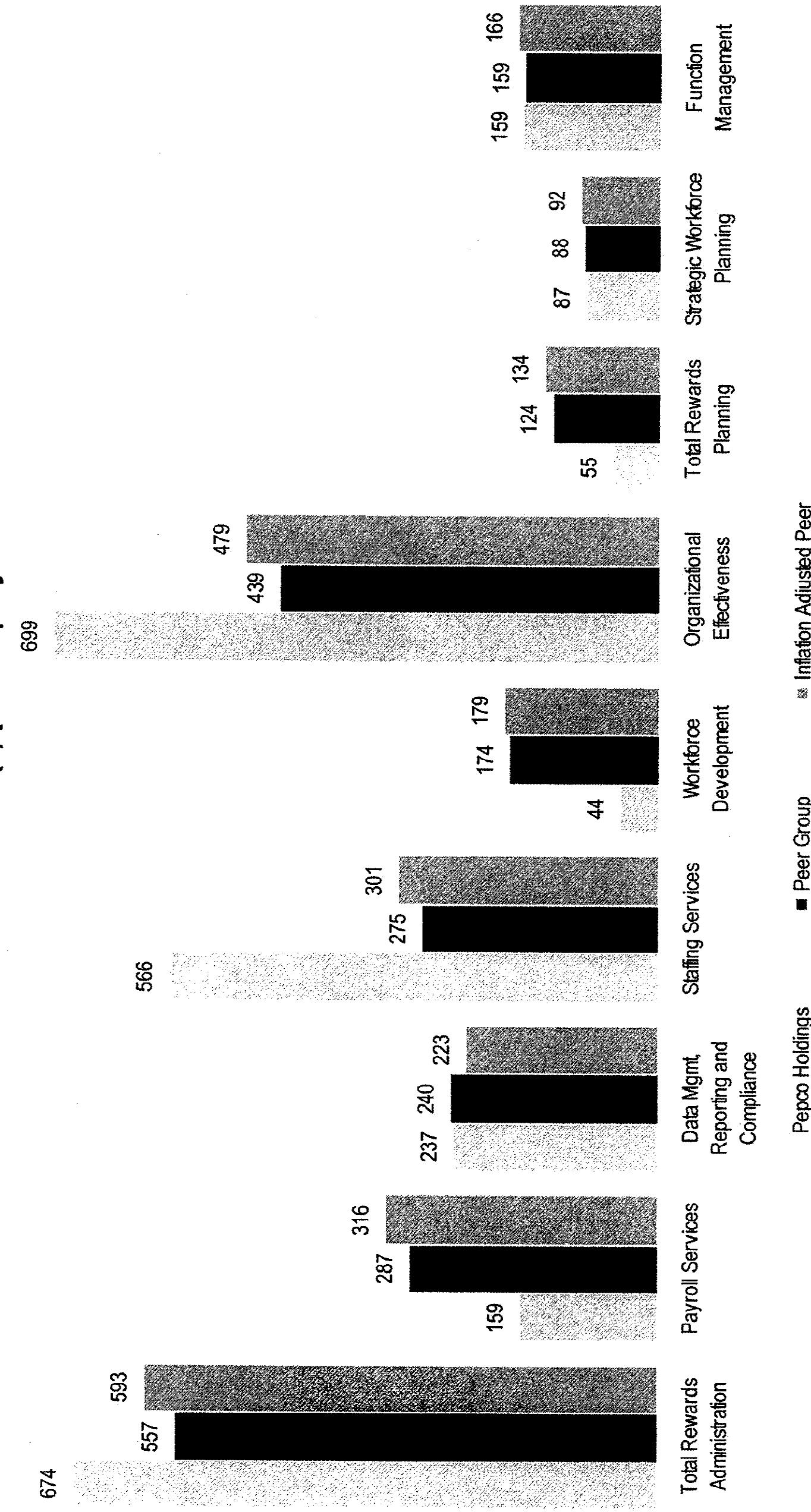
*Quartile breaks are the Peer Group



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Pepco Holdings' HR Process Cost per Employee

Process Cost (\$) per Employee

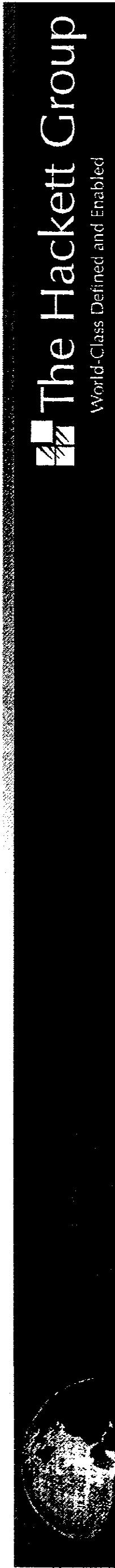
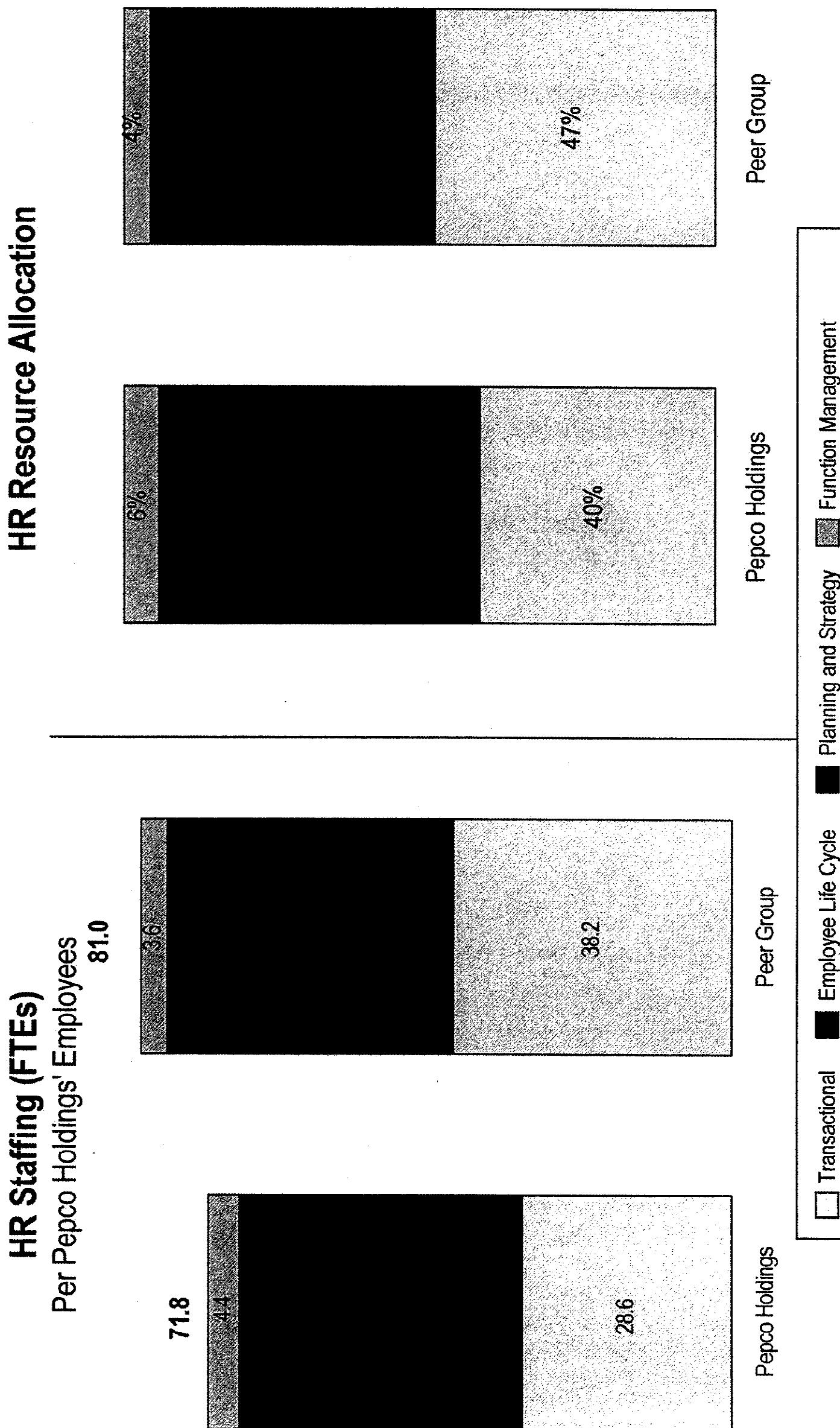


Note for Staffing Services: Pepco reported 627 hires per 1,000 employees. Peer Group reported 589 hires per 1,000 employees.



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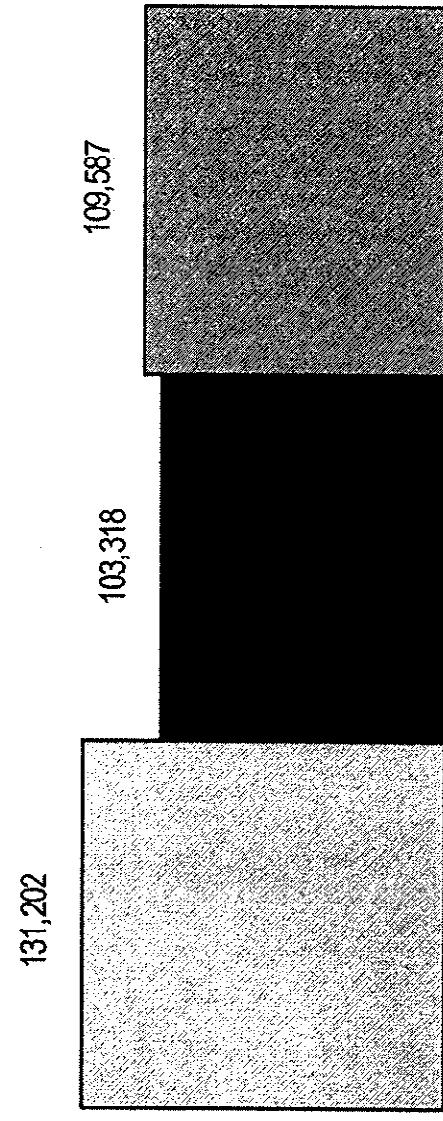
Pepco Holdings HR Staffing and Resource Allocation



Staff Mix, Labor Rates and Spans of Control

Staff Mix

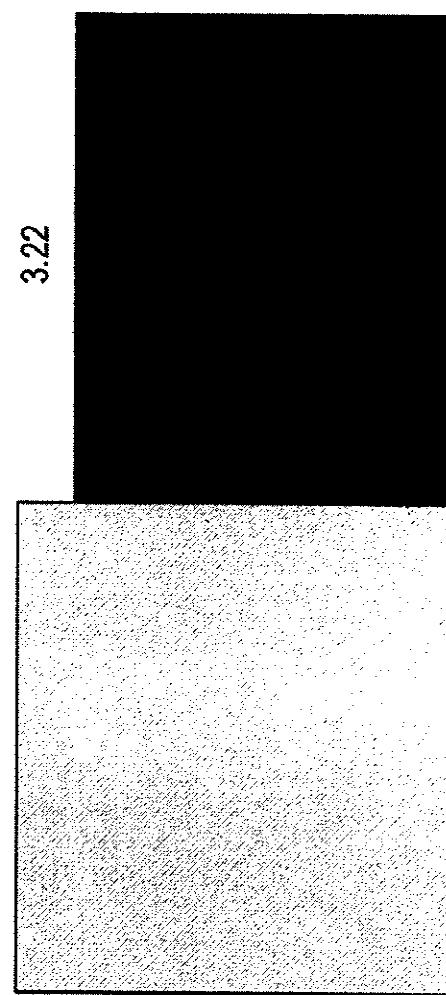
Average Fully Loaded Labor Cost (\$) per FTE



Note: The Hackett Group benchmarked PHI's 'labor cost per FTE' on a national basis. To account for regional influences on wages, Hackett leveraged data from the Department of Labor's Bureau of Labor Statistics. Hackett confirmed that the Northeast region's average wage is 9.9% higher than the national average labor rate.



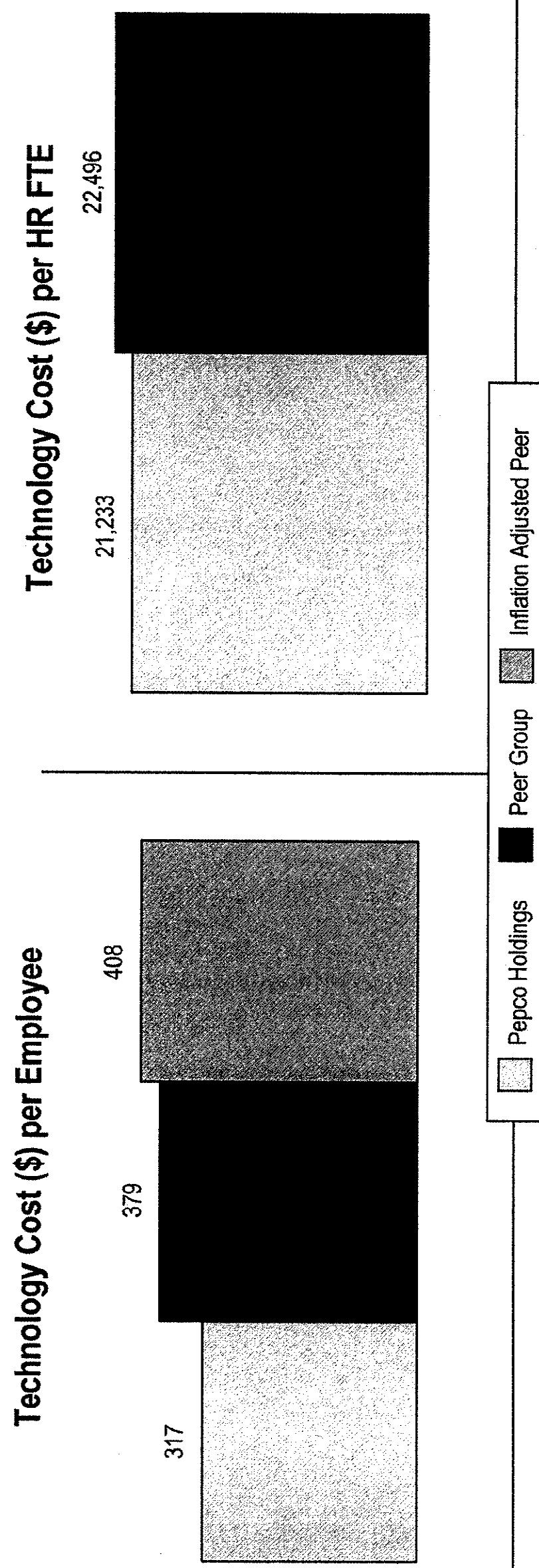
Number of Staff to Managers (Span of Control)



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Technology Costs

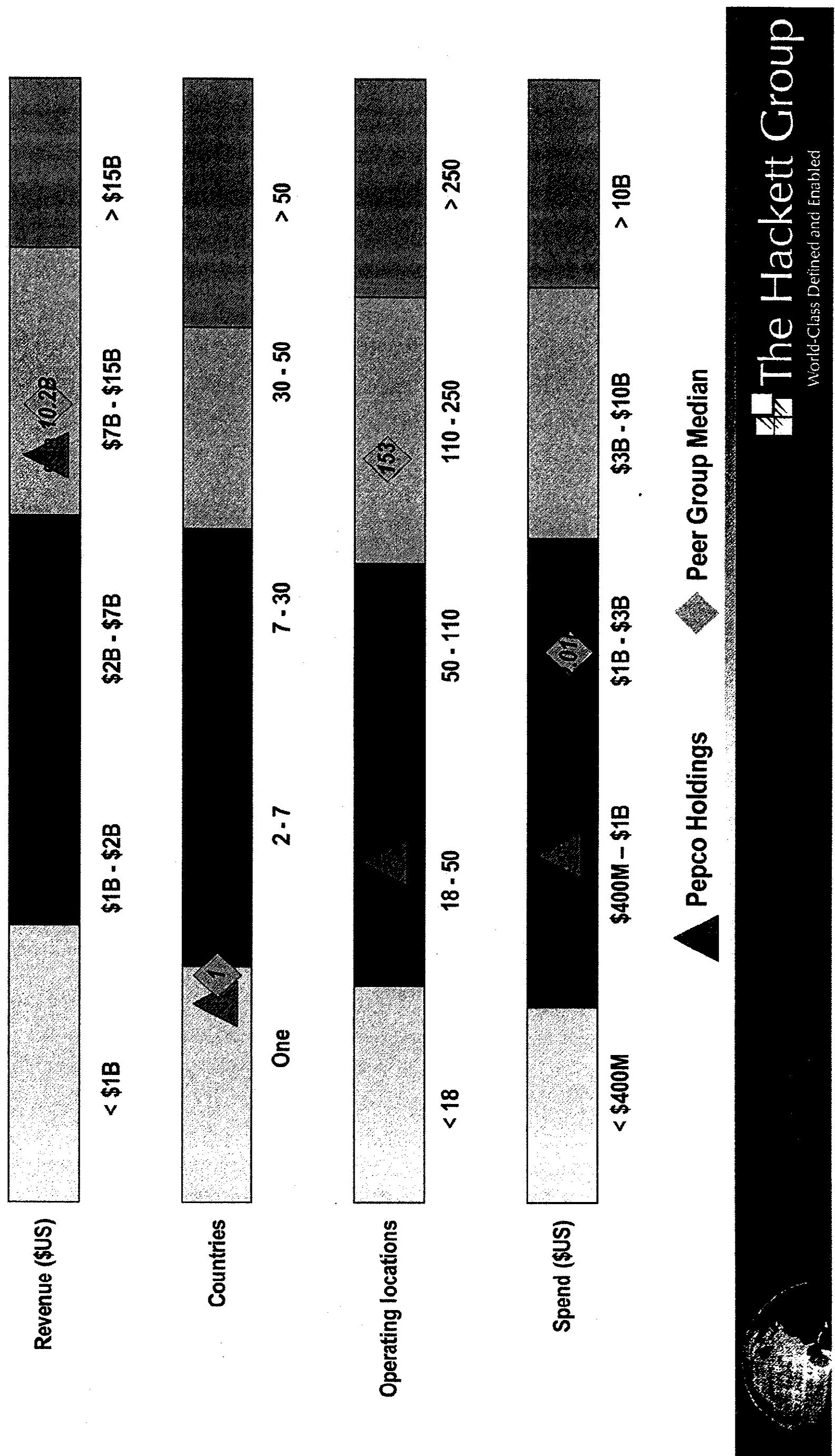


Procurement

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Procurement Demographics – Utilities Peers



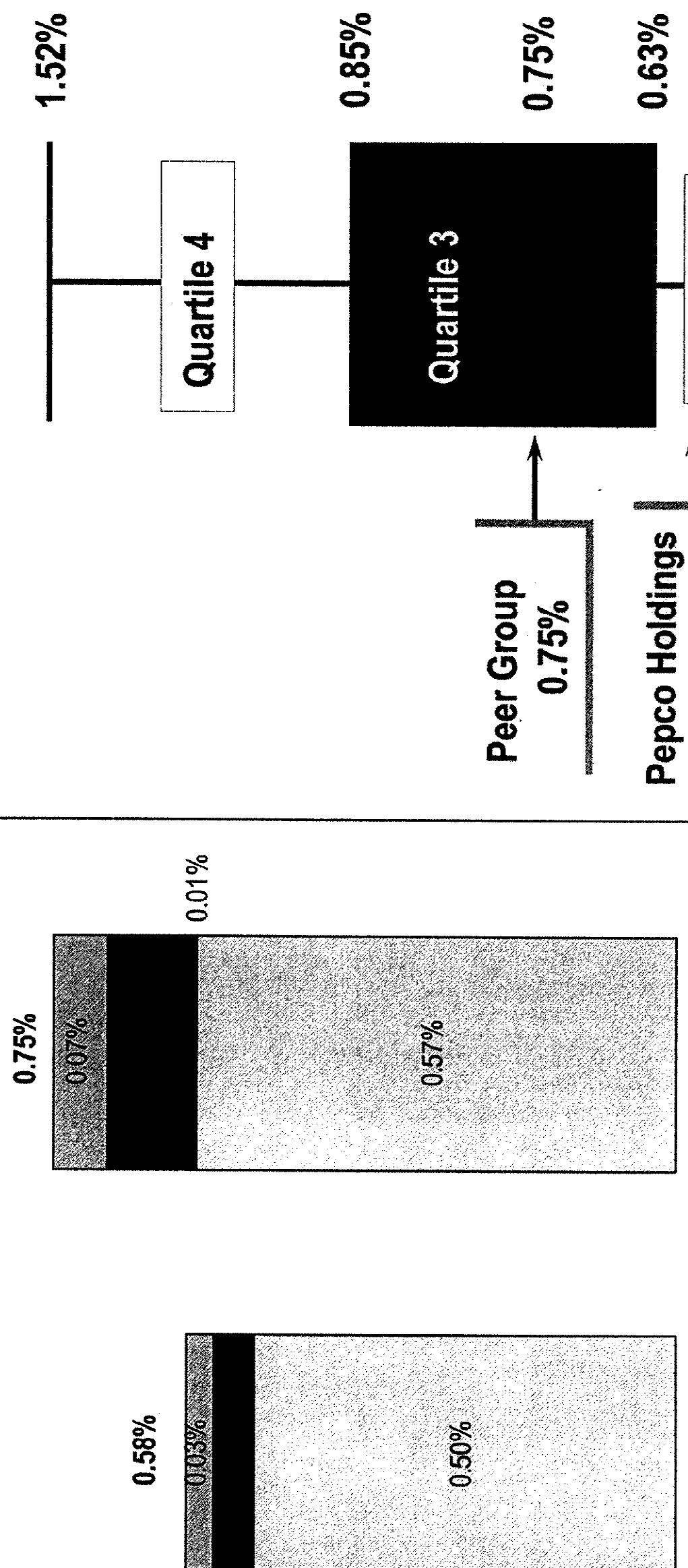
Procurement Utilities Peer Group Participants

- Entergy Corporation
- Detroit Edison Company (Currently DTE Energy)
- OGE Energy Corporation
- We Energies
- Constellation Energy Group
- Florida Power & Light Company (Currently FPL)
- Ameren Corporation
- Southern California Edison (Currently SCE)
- Exelon Corporation
- National Grid



Procurement Cost as a Percentage of Spend by Quartile

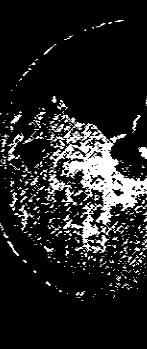
Procurement Cost as a % of Spend*



Procurement Cost as a % of Spend *

Labor Outsourcing Technology Other

* Above comparisons exclude the investment in Product Development

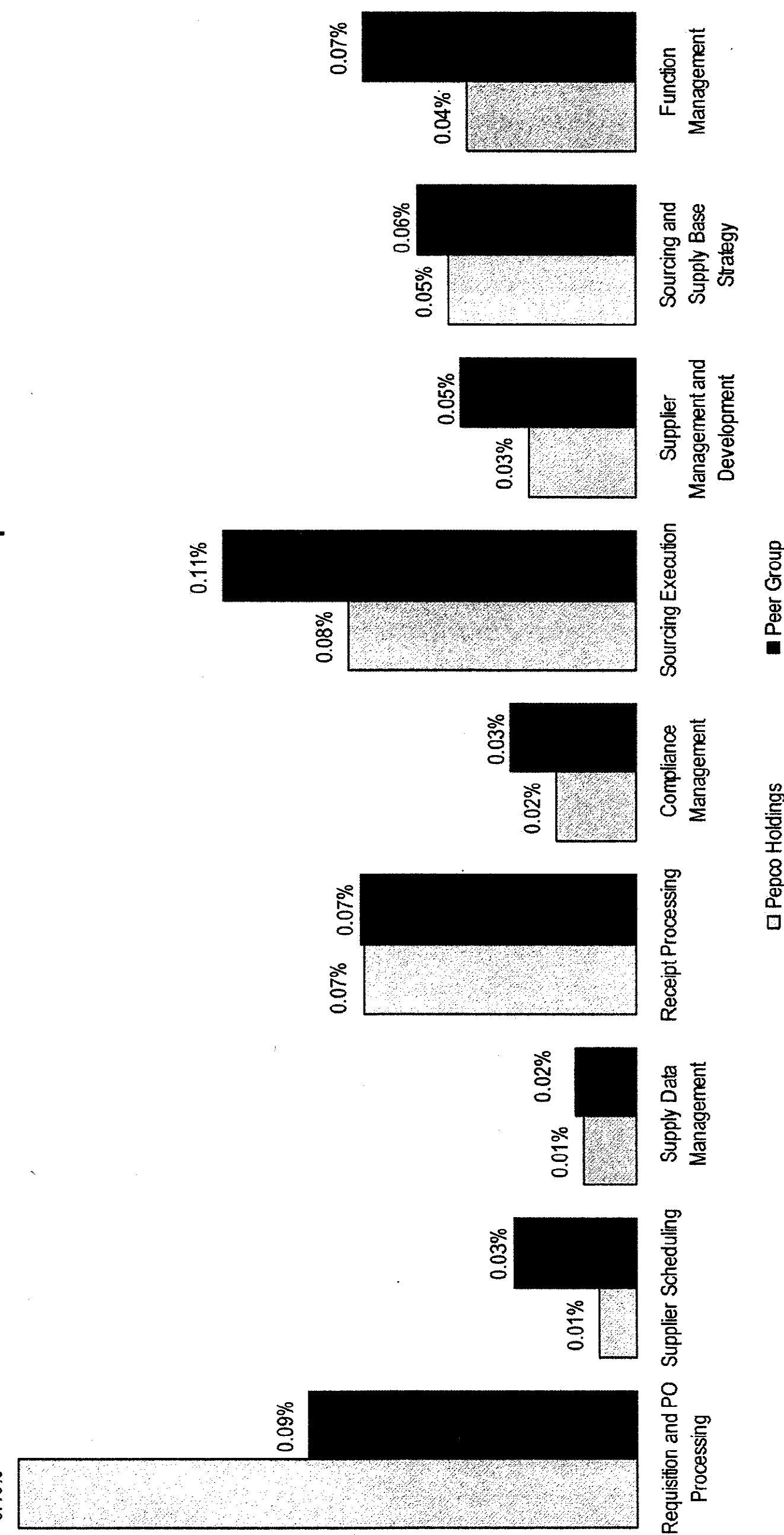


The Hackett Group

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Cost as a Percentage of Spend by Process

Procurement Process Cost as a % of Spend

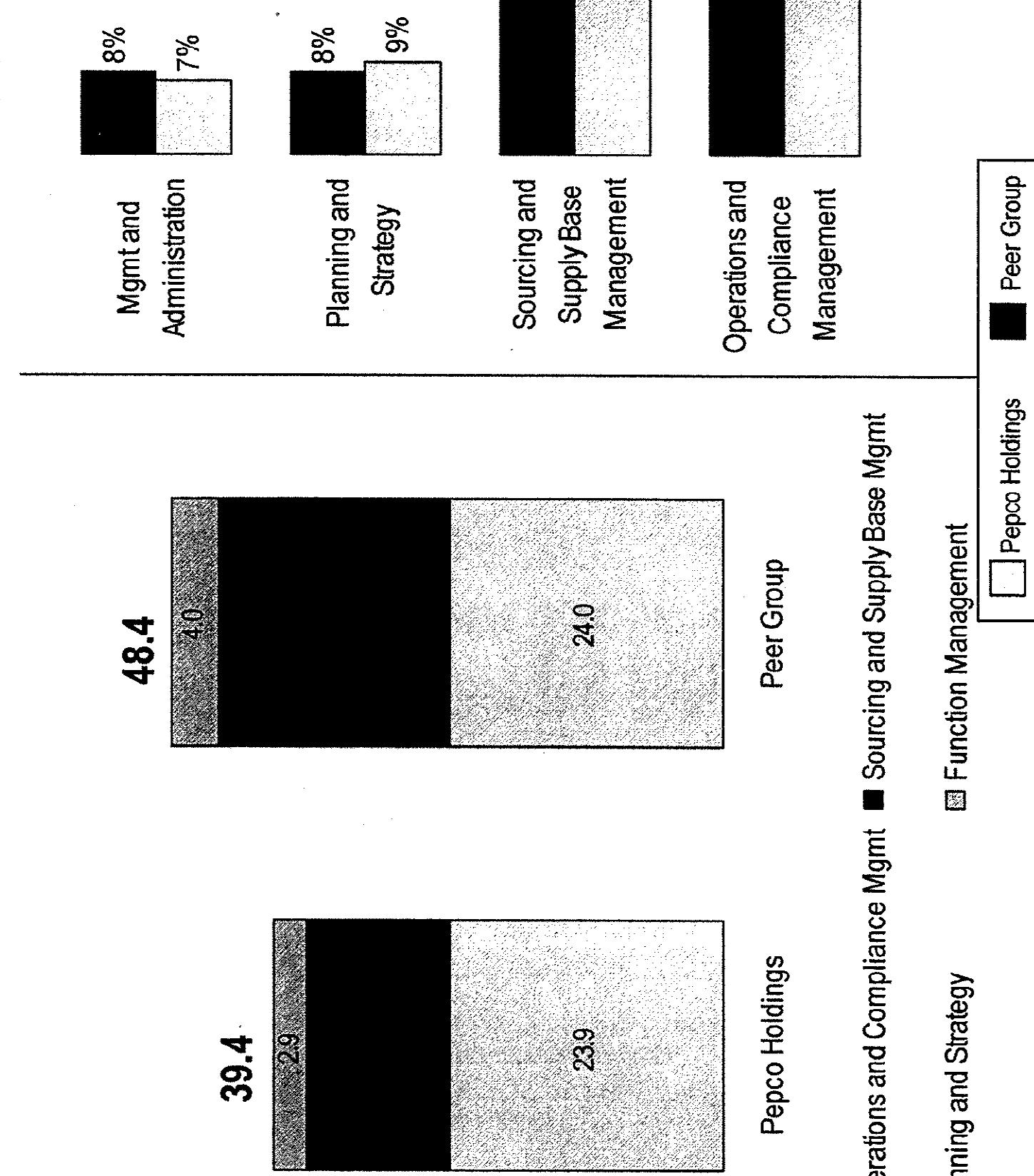


The Hackett Group

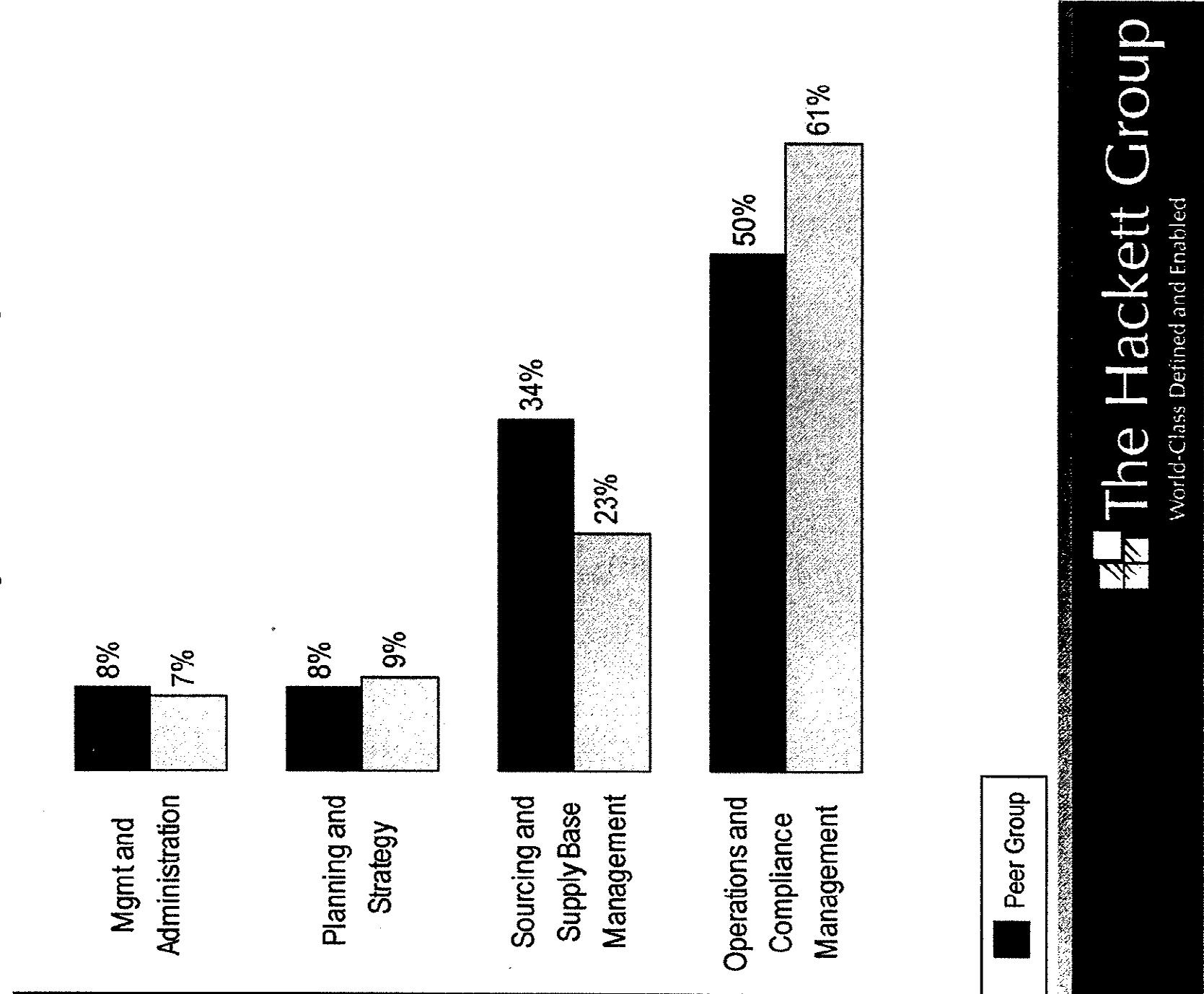
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Procurement Staffing Levels (FTEs) and Resource Allocation

Overall FTEs per Pepco Holdings' Spend



FTE Allocation by Process Groups

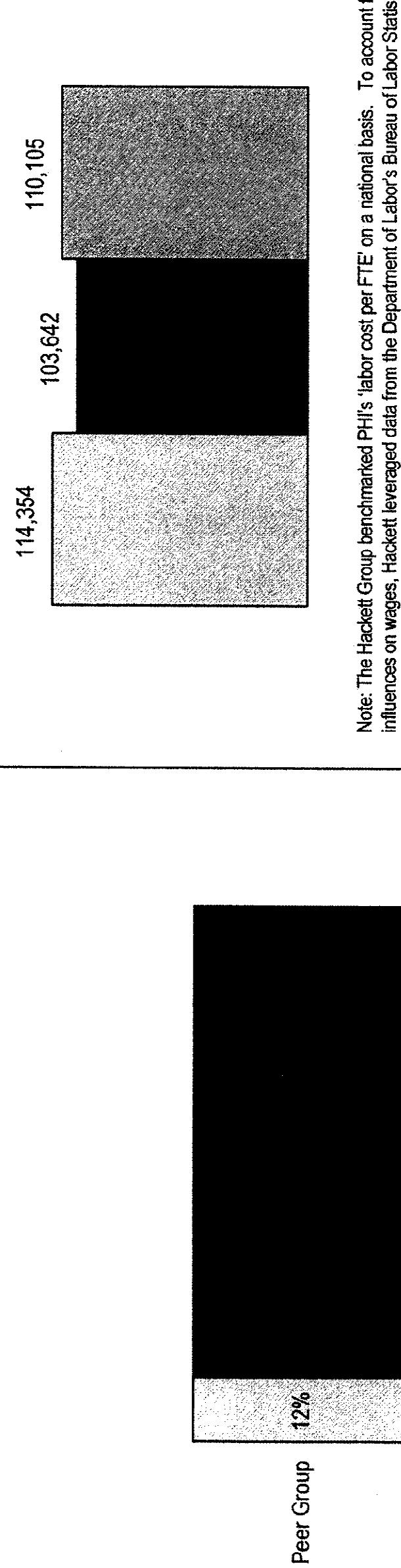


The Hackett Group

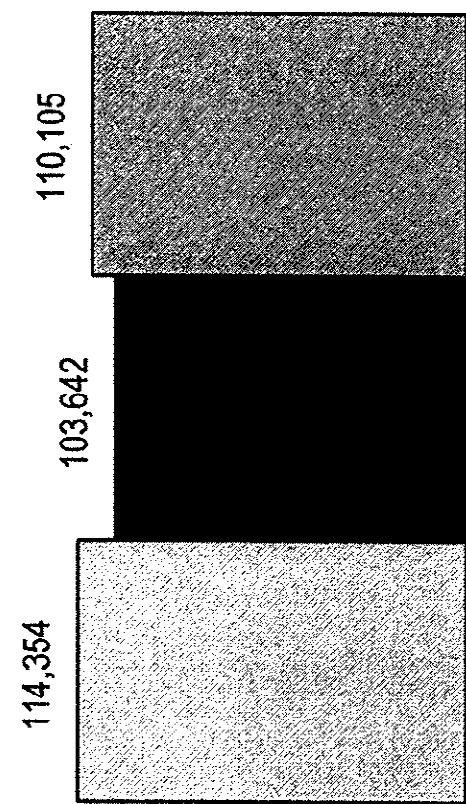
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Staff Mix, Labor Rates and Spans of Control

Staff Mix

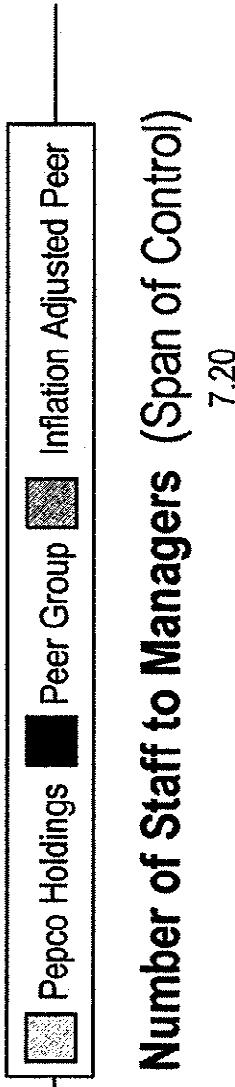


Average Fully Loaded Labor Cost (\$) per FTE

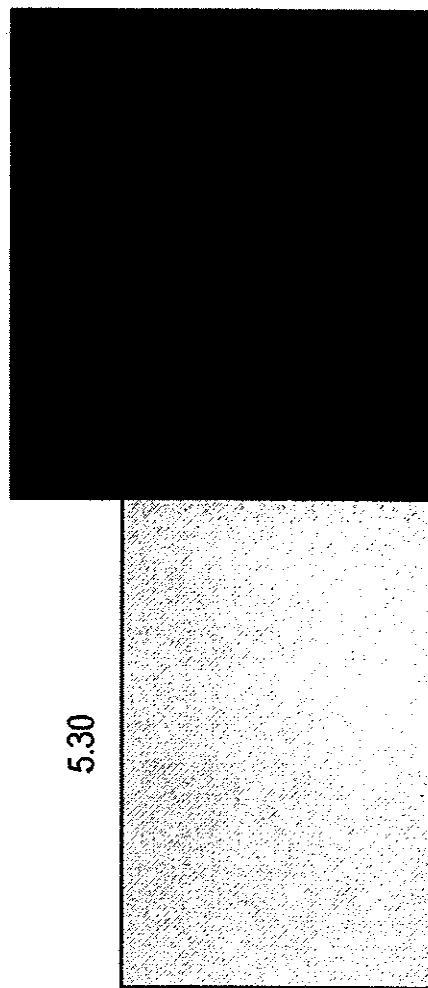


Note: The Hackett Group benchmarked PHI's 'labor cost per FTE' on a national basis. To account for regional influences on wages, Hackett leveraged data from the Department of Labor's Bureau of Labor Statistics. Hackett confirmed that the Northeast region's average wage is 9.9% higher than the national average labor rate.

Manager ■ Professional ■ Clerical



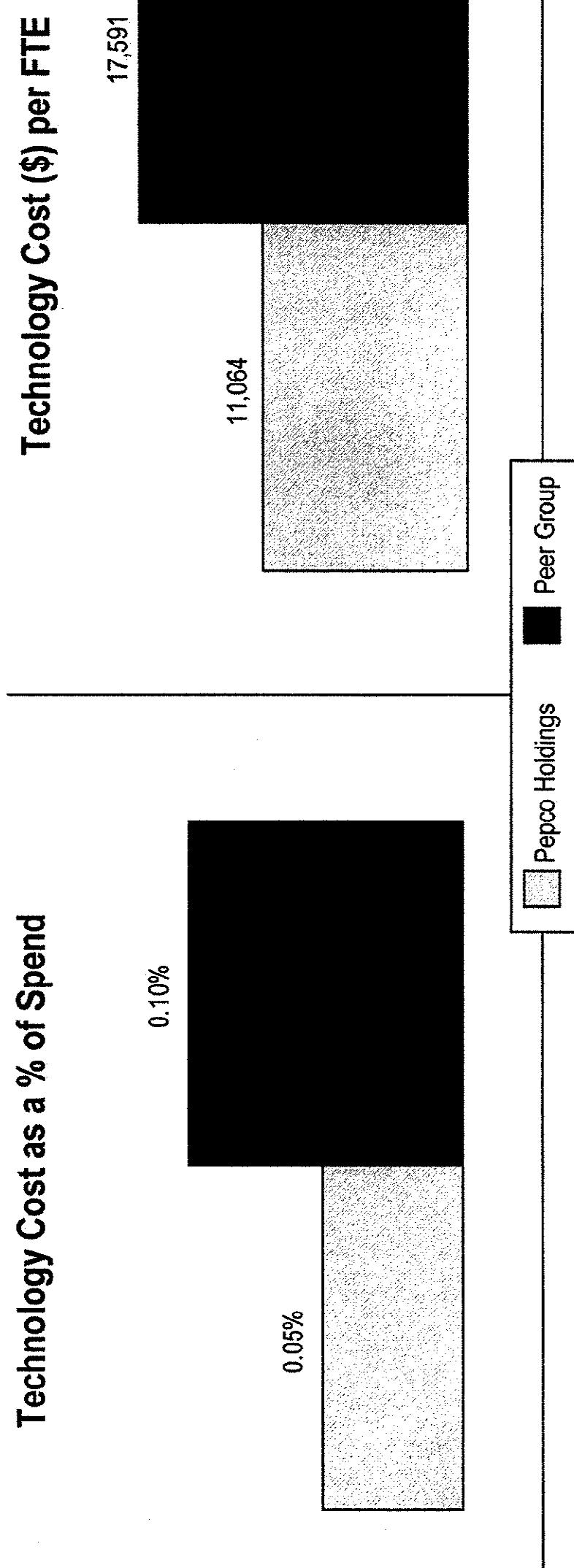
Number of Staff to Managers (Span of Control)



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Procurement Technology Cost as a Percentage of Spend and Technology Cost per FTE



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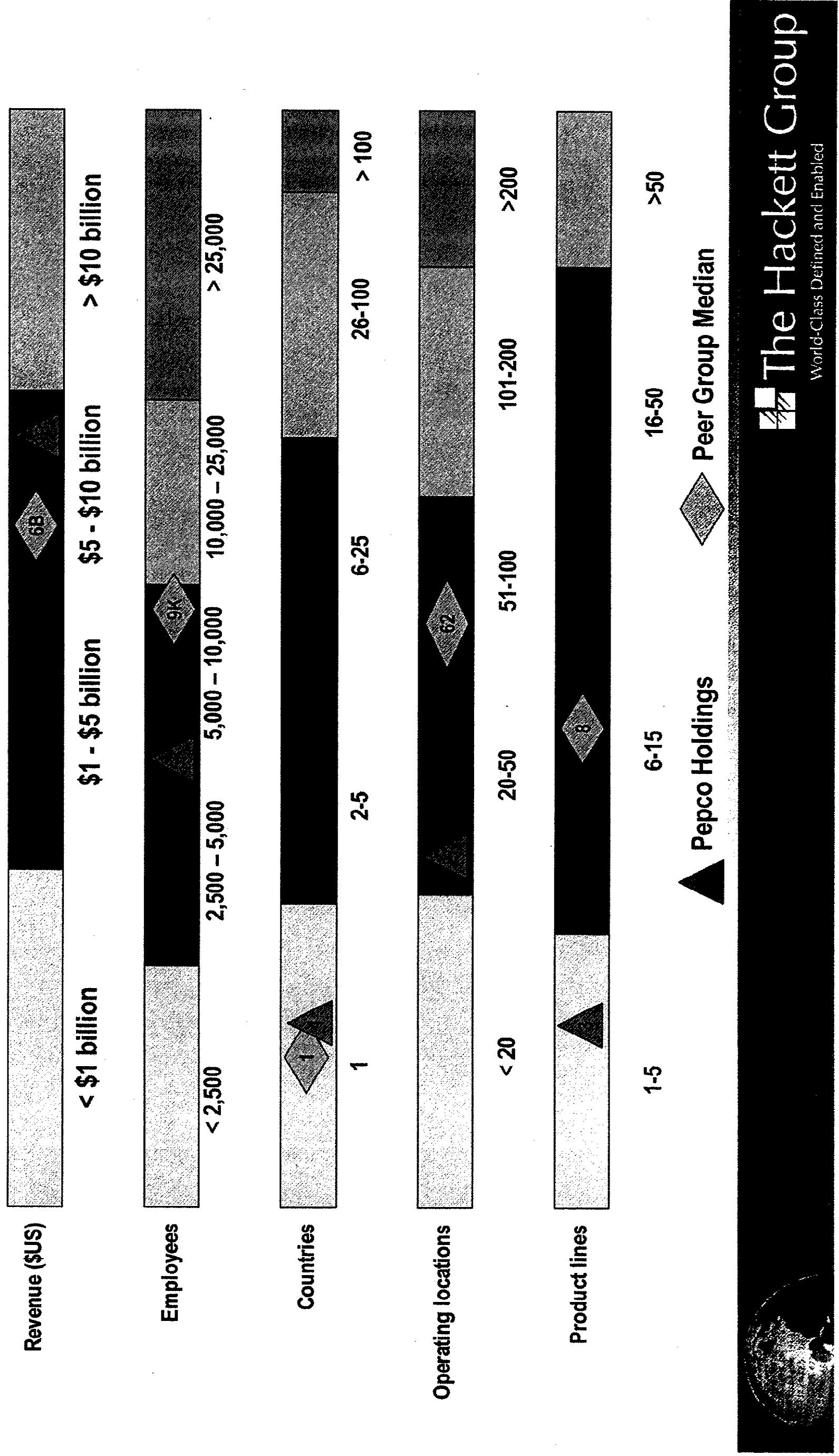
Executive & Corporate Services

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Executive & Corporate Services Demographics



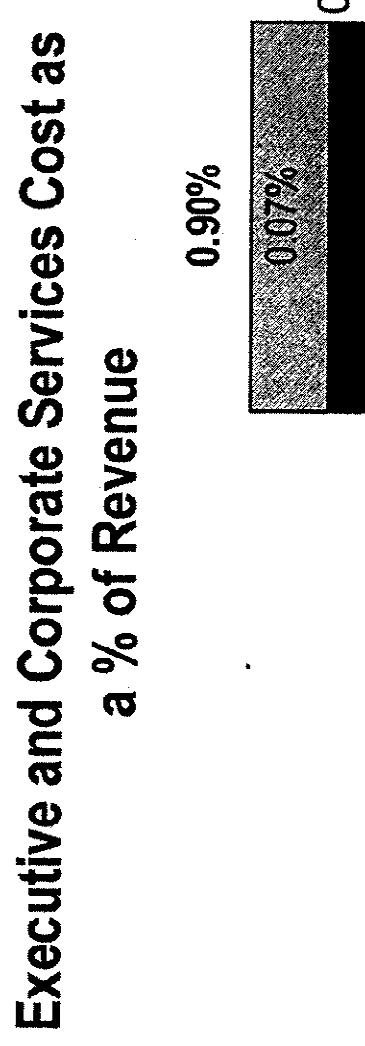
Executive and Corporate Services Participants

- Detroit Edison Company (Currently DTE Energy)
- OGE Energy Corporation
- Ameren Corporation
- CMS Energy
- We Energies
- Constellation Energy Group
- Florida Power & Light Company (Currently FPL)
- Lower Colorado River Authority (Currently LCRA)

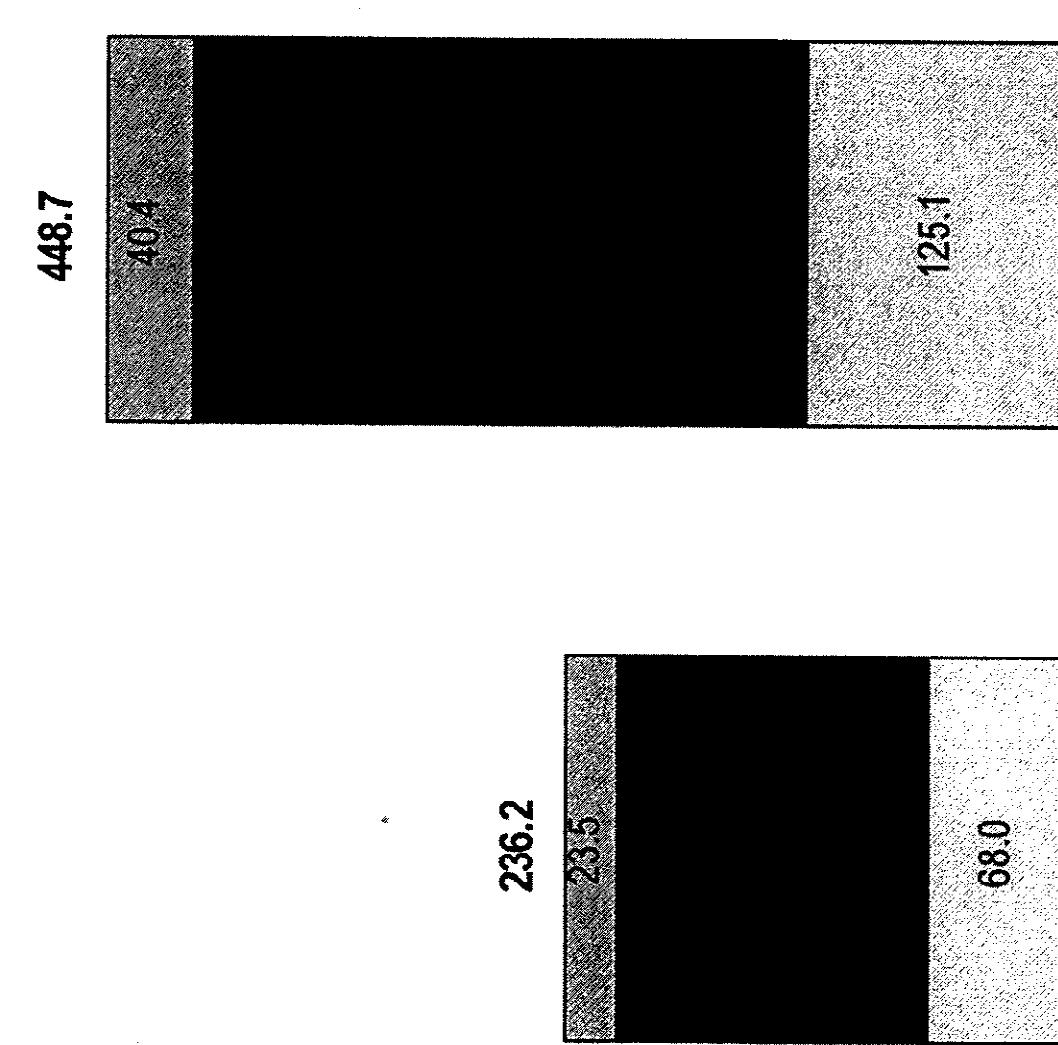
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Pepco Holdings' EC Services Cost and Staffing for Comparable Processes



Executive and Corporate Services FTEs per Pepco Holdings' Revenue



Pepco Holdings

Peer Group

- General Administration Management
- Technology
- Other
- Outsourcing
- Risk & Security Management
- Control & Risk Management
- Executive
- Labor



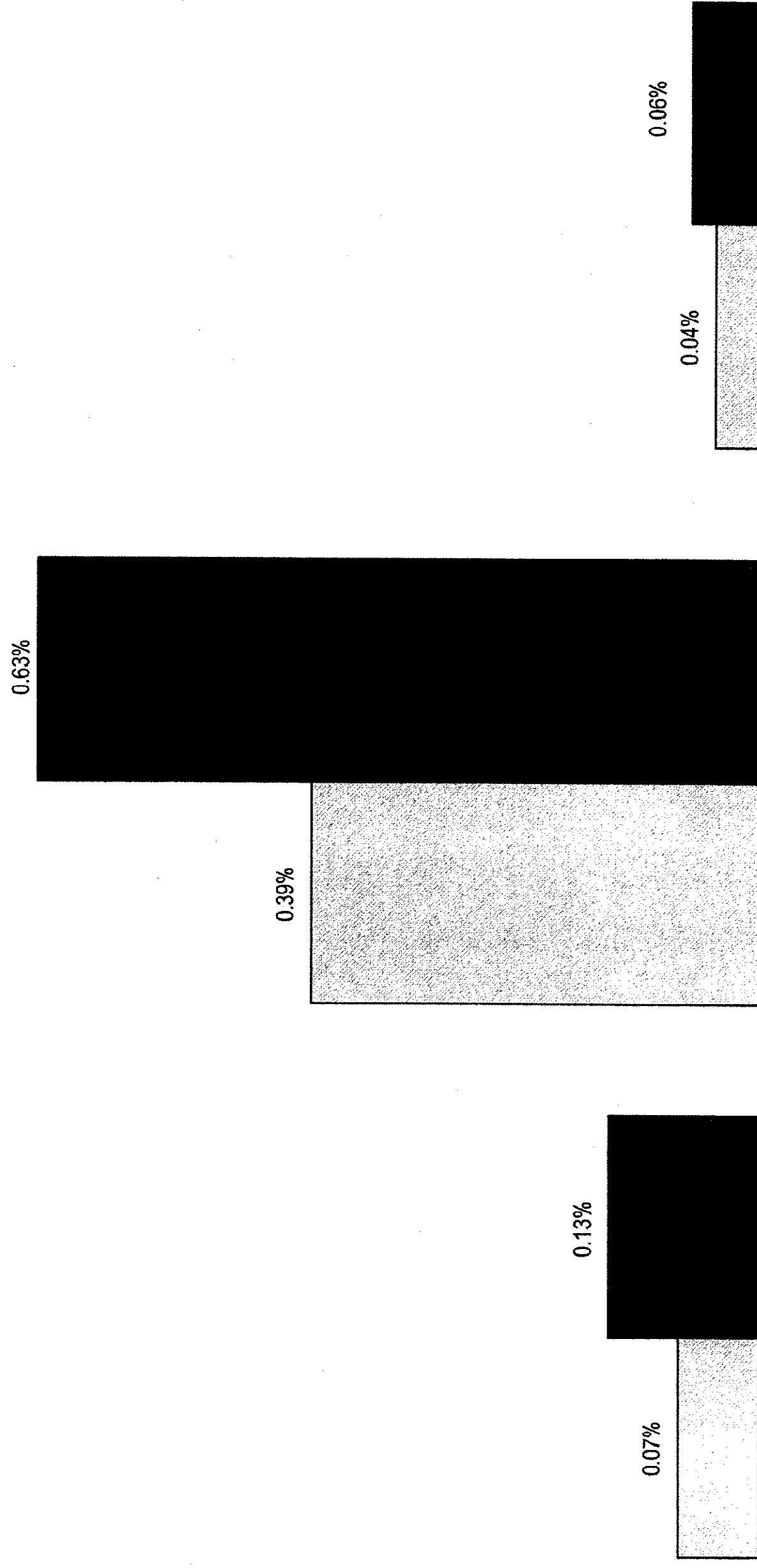
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* Above comparisons exclude the investment in Litigation & Dispute, Planning & Strategy, and Transportation

ECS Process Cost as a Percentage of Revenue

ECS Process Cost as a % of Revenue



General Administrative Management

Control and Risk Management

Executive

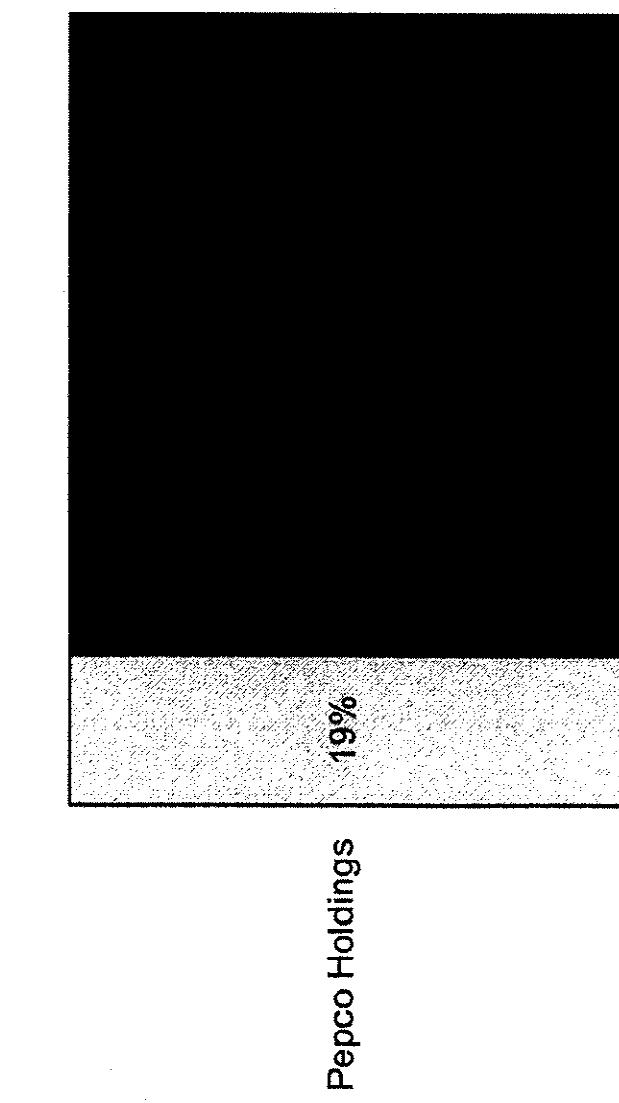
Pepco Holdings Peer Group



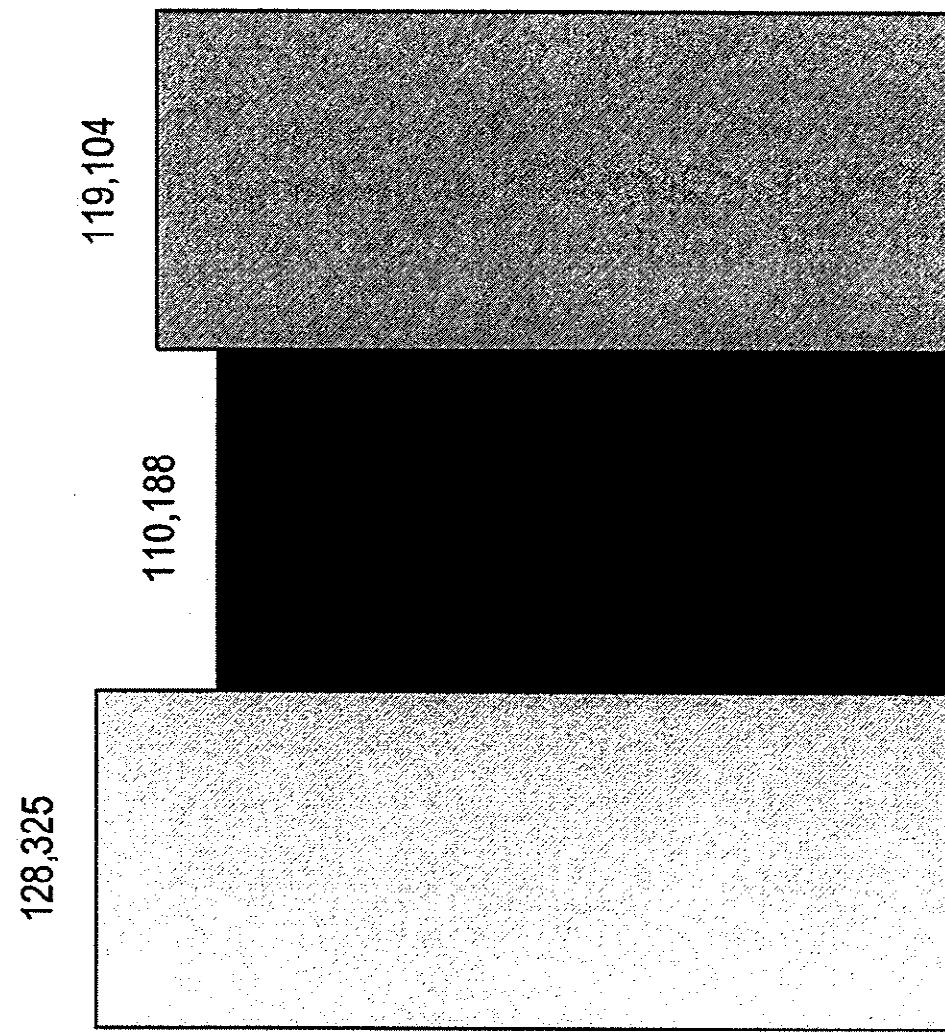
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Executive & Corporate Services Staff Mix and Labor Rates

Staff Mix



Average Fully Loaded Labor Cost (\$) per FTE



□ Manager ■ Professional ■ Clerical

Note: The Hackett Group benchmarked PHI's labor cost per FTE on a national basis. To account for regional influences on wages, Hackett leveraged data from the Department of Labor's Bureau of Labor Statistics. Hackett confirmed that the Northeast region's average wage is 9.9% higher than the national average labor rate.

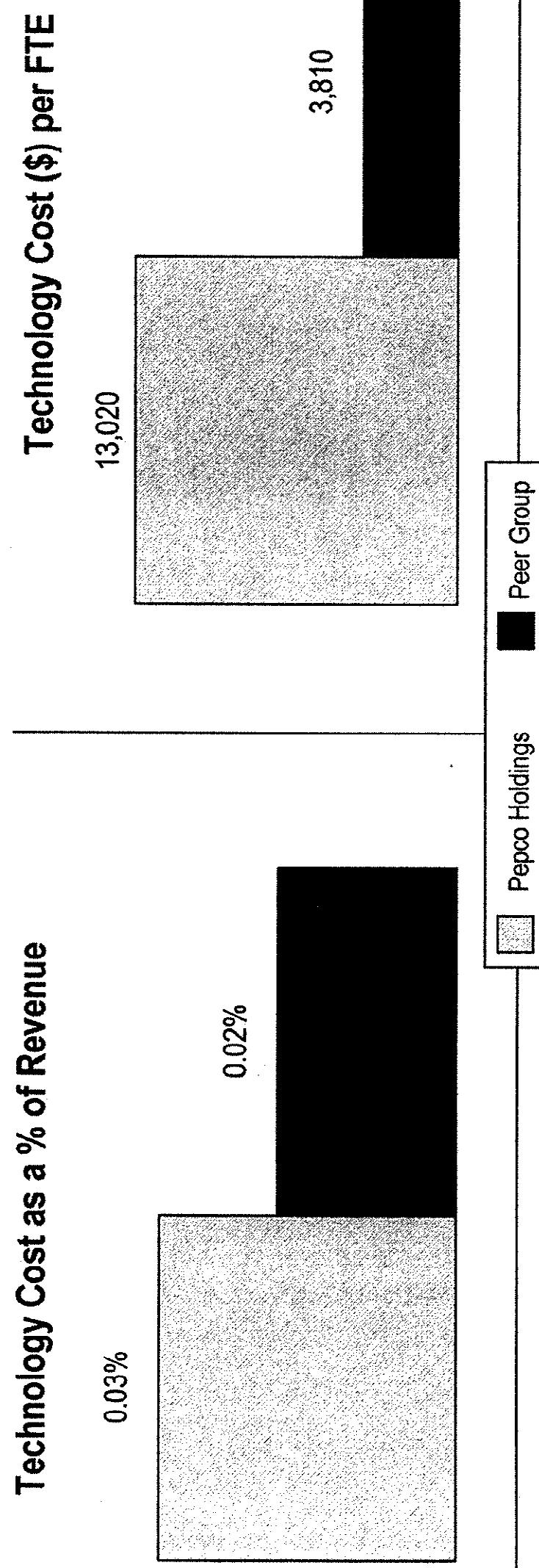
Pepco Holdings Peer Group Inflation Adjusted Peer

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Technology Cost as a Percentage of Revenue and Cost per ECS FTE

Technology Cost as a % of Revenue

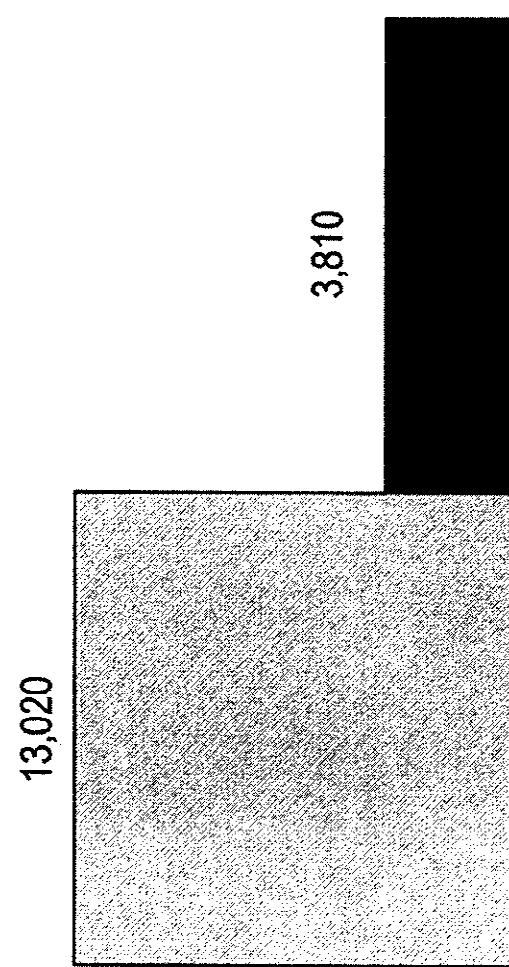


0.03%

0.02%

13,020

Technology Cost (\$) per FTE



3,810

13,020

Pepco Holdings Peer Group

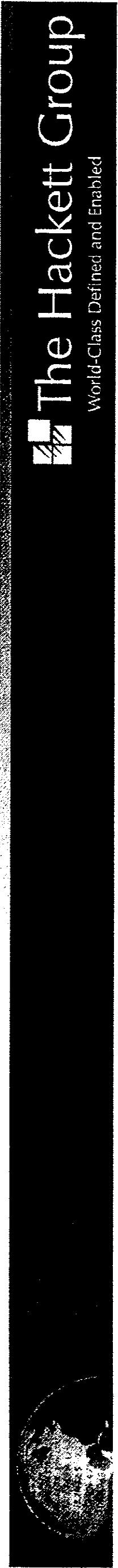


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 - Benchmark Background & Objectives
- Section Two
 - Benchmark Results
- Section Three
 - Results by Function
- Section Four
 - Appendix

 **The Hackett Group**

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Methodology

Methodology

- Inflation was adjusted using CPI Index (Bureau of Labor Statistics)
 - Used percent increased (average to average)

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Total Cost as a % of Revenue

Function	Pepco Holdings (LOTO)	Peer Group's Functional Cost (LOTO)
Human Resources	0.18%	0.40%
Procurement	0.06%	0.13%
Information Technology	0.71%	1.60%
Finance	0.81%	0.99%
Executive & Corporate Services	0.60%	0.98%

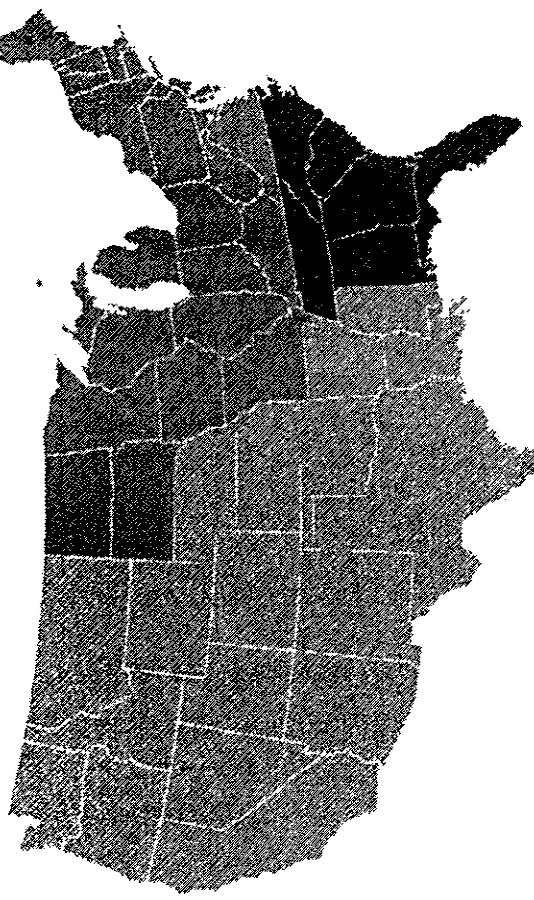
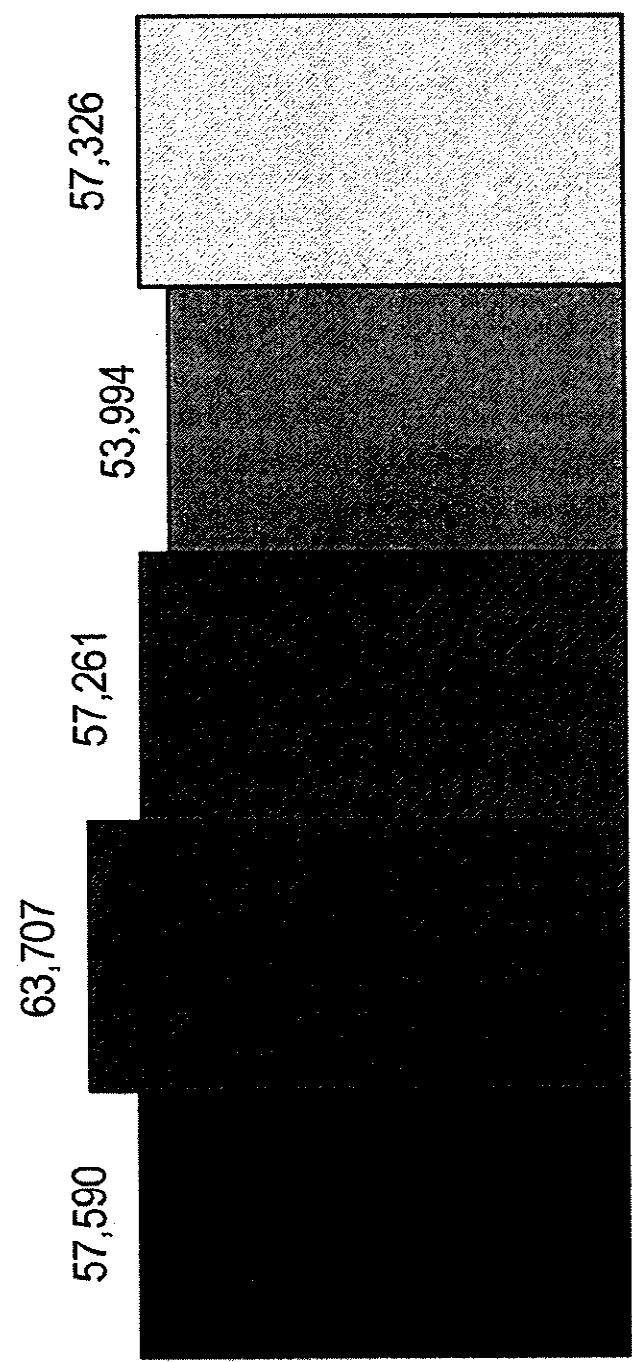
Note: LOTO is defined as 'Labor, Outsourcing, Technology, and Other 'costs.'

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Average Labor Cost by Region According to the Bureau of Labor

Average Labor Cost Regional Breakdown



Compared
to NE

Southeast Northeast Midwest Southwest West
9.6% Lower N/A 10.1% Lower 15.2% Lower 10.0% Lower

Occupations Included in Average Labor Cost

- Purchasing Agents, Except Wholesale, Retail, & Farm Products
- Compliance Officers, Except Agriculture, Construction, Health & Safety, & Transportation
- Employment, Recruitment, and Placement Specialists
- Compensation, Benefits, and Job Analysis Specialists
- Training and Development Specialists
- Human Resources, Training and Labor Relations Specialists, all Other
- Management Analysts
- Accountants and Auditors
- Budget Analysts
- Credit Analysts
- Financial Analysts
- Financial Examiners
- Financial Specialists, All Other

Note: The information on this slide is not from the Hackett Database. This was collected from the Bureau of Labor Statistics – State Labor Rate – May 2007. Site last updated November 12, 2008



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A PHI Company

March 19, 2010

VIA HAND DELIVERY

Ms. Alisa C. Bentley, Secretary
Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, DE 19904

**RE: In the Matter of the Application of Delmarva Power & Light Company for Approval
of a Change in Electric Distribution Base Rates and Miscellaneous Tariff Changes
PSC Docket Nos. 09-414/ 09-276T**

Dear Ms. Bentley:

Enclosed for filing are the original and 10 copies of the Rebuttal Testimony of Delmarva Power & Light Company in the above referenced Docket. Please contact me at (302) 429-3786 with any questions relating to the above referenced matter.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Todd L. Goodman'.

Todd L. Goodman

cc: Service List – Overnight Mail and Email

ANTHONY J. KAMRICK

1 **DELMARVA POWER & LIGHT COMPANY**
2 **REBUTTAL TESTIMONY OF ANTHONY J. KAMERICK**
3 **BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION**
4 **CONCERNING AN INCREASE IN ELECTRIC BASE RATES**
5 **DOCKET NOS. 09-414/09-276T**

- 6
- 7 1. **Q: Please state your name and position, and business address.**
- 8 A: My name is Anthony J. Kamerick. I am Senior Vice President and Chief
9 Financial Officer of Pepco Holdings, Inc., (PHI) located at 701 9th Street NW,
10 Washington, D.C. 20001. I am testifying on behalf of Delmarva Power and Light
11 Company (Delmarva or the Company).
- 12 2. **Q: Did you previously submit direct testimony in this case?**
- 13 A: Yes.
- 14 3. **Q: What is the purpose of your rebuttal testimony?**
- 15 A: As the Company's overall policy witness, I will introduce the Company's
16 rebuttal witnesses and I will rebut portions of the direct testimonies filed by the
17 Commission Staff and the Division of Public Advocate (DPA), with a specific
18 focus on the financial implications of their recommendations. I will also address
19 the Staff's and DPA's rejection of the Company's proposed rate mitigation
20 proposal and the Volatility Mitigation rider (Rider VM) that was included in my
21 direct testimony. Finally, I will address employee compensation and Staff's
22 comments on the PHI Service Company costs and proposed Management Audit.
- 23 4. **Q: DPA's overall revenue requirement recommendation is approximately a**
24 **\$1.9M dollar decrease and Staff's is a \$5.1M dollar increase in base**
25 **distribution revenue. Please comment on the financial impact of these**

1 proposals on the Company and its ability to raise capital on reasonable
2 terms.

3 A: As stated in my Direct Testimony on page 4 and on page 6, the Company
4 invested approximately \$225 million in its Delaware transmission and distribution
5 system over the past three years in order to enhance reliability and to continue to
6 provide safe and reliable service to its customers. However, at current rates,
7 Delmarva's return on equity (ROE) of 3.16% is falling significantly short of the
8 10.00% ROE currently approved by the Commission. At this low rate of return,
9 the Company is at a competitive disadvantage when it comes to raising the
10 necessary capital, which ultimately is to the detriment of our customers. The
11 Company's rates for distribution service must reflect the current costs of
12 providing service. It is critically important for Delmarva to have the opportunity
13 to earn a fair return on its capital in order to be able to raise additional capital on
14 reasonable terms.

15 DPA's recommendations, if adopted, would have an extremely negative
16 effect on the Company's operations and its customers and would further lower
17 Delmarva's current cash flow.

18 Staff's overall revenue requirement proposal, while a small increase, is not
19 nearly sufficient to offset the Company's operating costs or support its capital
20 expenditures.

21 If adopted, these proposals would be viewed extremely negatively
22 by both the financial community and the rating agencies, and will cost the
23 Company's customers more in the long run in higher capital costs. In fact, in the

1 Company's 4th quarter earnings conference call, an analyst noted that: "Delaware
2 was a little aggressive...with respect to the decrease in ROE...." He further
3 inquired: "How does one think about the purpose of going in if the ROE is so
4 much lower? How should [the financial community and rating agencies] think
5 about that in terms of regulatory process?" This quote clearly reflects the concern
6 on the part of the financial community to these unreasonably low rate of return
7 recommendations.

8 5. Q: What are the most significant recommendations of the Staff, DPA, and
9 Delaware Energy Users Group (DEUG) in terms of detrimental impacts on
10 the Company and its customers?

11 A: The most significant recommendations in terms of detrimental impact are:
12 the unreasonably low rate of return recommendations of DPA Witness Crane,
13 Staff Witness Rothschild and DEUG Witness Gorman; and the positions of the
14 DPA and Staff to not accept reasonably known and measurable adjustments past
15 the end of the test period, contrary to the standard practice of this Commission.

16 6. Q: Please comment on the importance of Commission adherence to reasonable,
17 consistent and predictable ratemaking practices.

18 A: It is widely accepted that the rate-setting process must be forward
19 looking. This is because the primary purpose of setting utility rates is to provide
20 the utility an opportunity to earn the authorized rate of return. If Commissions do
21 not recognize in rates, rate-related (not volume-related) expense increases, and
22 non-revenue producing rate base additions that occur during the rate effective
23 period, the utility will not be allowed that opportunity. In fact, to not recognize

1 these added costs would virtually guarantee that the utility will fall short of its
2 authorized rate of return. This is why it is common utility commission practice to
3 either adjust the historical test period for known and measureable increases of this
4 nature, or to grant the utility use of a fully forecasted test period. Consistent with
5 this principle, and in order to make the test period more reflective of the period
6 when the new rates will be in effect, since at least the 1980's, the Commission has
7 consistently allowed adjustments outside of the test period for known and
8 measurable changes.

9 Moreover, as I stated in my Direct Testimony on page 22, the regulatory
10 environment is a very important factor to credit rating agencies in assessing the
11 credit quality of investor-owned utilities. In fact, Standard & Poor (S&P) has
12 indicated that the regulatory climate is perhaps the most important factor it
13 analyzes when evaluating investor-owned utilities. Included in S&P's evaluation
14 of the regulatory environment for utilities is the consistency and predictability of
15 rate treatment and decisions. If the Commission were to depart from its long-
16 established ratemaking practice of allowing adjustments outside of the test period
17 for known and measurable adjustments, it would clearly send an alarming signal
18 to the credit rating community of deterioration in the regulatory climate and,
19 therefore, a heightened uncertainty in the recovery of Delmarva's appropriately
20 incurred expenses and investments.

21 It is also important to understand that we rely upon consistency of rate
22 making treatment in our planning for, and operation of, Delmarva. By way of
23 example, a regulated utility must be able to rely upon ratemaking consistency for

1 budgeting, determining when rate increases are needed, and planning cash flow.
2 By this I am referring to the recovery of appropriately incurred costs; I am not
3 suggesting that ratemaking practices should be unreasonably inflexible and unable
4 to meet the changing needs of customers, the environment, the utility and the
5 State's energy goals. Decoupling is an excellent example where rate design
6 practices are changing to meet the needs of customers, the environment, the utility
7 and the State's energy goals. The numerous changes in established ratemaking
8 treatment advocated by Staff and DPA, however, are not supported by any
9 changing needs in the regulatory or energy environments, nor will they allow the
10 Company an opportunity to earn the authorized rate of return. Company Witness
11 VonStueben addresses the specific instances of inconsistency in more detail in his
12 rebuttal testimony.

13 **7. Q: Please comment on the Staff's, DPA's and DEUG's recommended ROE.**

14 A: The ROE's recommended in this proceeding by Staff, DPA and DEUG are
15 as follows: Staff 8.5%; DPA 7.52%; and DEUG 9.9% Staff's recommendation is
16 below any authorized electric company ROE reported by Regulatory Research
17 Associates (RRA) across the country since 1989, which is as far back as RRA
18 makes information available. DPA's recommendation is far lower than Staff's
19 recommendation. Both of these recommendations are outside the range of
20 reasonableness and would harm Delmarva and its customers if adopted. DEUG's
21 recommendation, while more reasonable, is still well below the market-required
22 ROE as shown by Dr. Morin, and well below the 10.5% average rate of return on
23 equity authorized in other jurisdictions around the country during the past two

1 plus years, as reported by RRA (See Schedule AJK R-1). Company Witness
2 Morin discusses in detail the flaws in the calculations of these three
3 recommendations in his rebuttal testimony.

4 **8. Q: Please comment on the Staff's recommended cost rate of long-term debt for**
5 **Delmarva**

6 A: Staff Witness Rothschild has made downward adjustments to the
7 Company's proposed cost of debt in this proceeding based on the advice he
8 received from Staff Witnesses Antonuk and Vickroy. As I will address in more
9 detail in my reply testimony on Ring Fencing,¹ this adjustment, if adopted, would
10 penalize Delmarva based on 20/20 hindsight. I wonder if Mr. Rothschild would
11 still be recommending such an adjustment if interest rates were considerably
12 higher today. The fact is that Delmarva cannot, and should not, engage in the
13 practice of playing an interest rate guessing game or, in this case, a high stakes
14 gamble that the economy will improve in time for our needs, when timing its
15 financing. We do not have a crystal ball and neither does Mr. Rothschild.

16 The bond offering completed in the fall of 2008 was needed at that time in
17 the judgment of Delmarva's management team to protect the Company's liquidity
18 during a time of a liquidity crisis and possible economic and banking industry
19 meltdown. This will be addressed in detail in my Ring Fencing reply testimony.

20 **9. Q: Please comment on Staff Witness Mullinax's recommendations for the**
21 **Commission to order a management audit of Delmarva.**

¹ The Parties to this Proceeding agreed that Staff would file its testimony on Ring Fencing on March 1, 2010 and the Company would provide its reply testimony on March 29, 2010 as a separate filing.

1 A: Staff Witness Mullinax states that the Company cannot provide reasonable
2 assurances that its allocated charges from the PHI Service Company are
3 reasonable. She recommends that the Commission order a management audit of
4 Delmarva, its operations, and the costs of the services being provided by the PHI
5 Service Company to determine whether the PHI Service Company is operating
6 efficiently and effectively.

7 As stated in my Direct Testimony on page 29, PHI conducted a study that
8 compared a peer group of utilities' A&G costs to Delmarva's A&G costs, which
9 included all of the A&G costs allocated from the PHI Service Company. The PHI
10 study was developed using FERC Form 1 data and was presented as Schedule
11 AJK-3. These data show that Delmarva's A&G cost ratios are consistently lower
12 than the average for both metrics used, including a percentage of retail revenues
13 and percentage of net plant, when compared to the peer group.

14 In addition, the Company engaged an independent benchmarking leader,
15 The Hackett Group, who recently completed a study of the PHI Service Company
16 A&G costs and concluded that PHI's costs are in line with its peers. This study
17 was provided to all parties in this case in response to Data Request No. DPA-A-
18 179. (See Schedule AJK R-2).

19 The Company is required to file with the Commission an annual report
20 detailing its transactions with all affiliates, including the PHI Service Company.
21 These transactions have been audited by an independent auditor and the reports
22 have been provided to the Commission for the years 1997, 1998, 2001, 2004, and
23 2007.

1 Moreover, compliance with the Company's Cost Allocation Manual, and
2 in particular the Service Company, have been the subject of many independent
3 audits since 1998. Since the merger between Atlantic City Electric (ACE) and
4 Delmarva, the Service Company was audited by the Securities Exchange
5 Commission (SEC) in 1998, 1999 and 2005; external auditors for the New Jersey
6 Board of Public Utilities (NJBPU) in 2000 and 2002; and,
7 PriceWaterhouseCoopers and Ernst and Young for the Maryland Public Service
8 Commission for the 12 months ending September 2008.

9 Currently, PHI is in the final stage of an audit from the NJBPU for the
10 years 2005-2008. Since the filing of the Company's direct testimony, the
11 Division of Audits within the Office of Enforcement of the Federal Energy
12 Regulatory Commission began an audit of PHI, including the Service Company
13 and the affiliated companies. This audit began in November 2009 and is expected
14 to conclude in 2010.

15 The expenditure of additional time, money (audit costs range from
16 \$200,000 - \$800,000) and resources to conduct another audit would clearly be
17 wasteful and unproductive. Moreover, there has been no material or substantive
18 findings from any of these multiple audits to indicate evidence of waste, bad faith
19 or an abuse of discretion. As such, there is no justification to require the
20 Company to undertake a costly and unnecessary management audit as recommended
21 by Staff Witness Mullinax.

22 **10. Q: Please explain the Company's alternative mitigation plan – Rider VM.**

1 A: As explained in my Direct Testimony on pages 9 and 30 and further
2 explained by Company Witness VonSteuben on page 39 of his Direct Testimony,
3 the Company proposed a ratemaking alternative to recover the costs of three
4 expenses that are extremely volatile and are largely outside of the Company's
5 control – pension, other post employment benefits (OPEB) and uncollectible
6 expenses. This mitigation proposal would reduce the amount of the rate increase
7 being requested in this proceeding by \$6.618 million. Under this proposal,
8 Delmarva would recover a rolling three-year average of costs for pension, OPEB
9 and uncollectible expenses in the form of a rider - Rider VM. Company Witness
10 VonSteuben's Direct Testimony explains how the Rider VM would operate.

11 **11. Q: What are the positions of the DPA and Staff regarding Rider VM?**

12 A: Both the DPA and the Staff recommend that the Company's mitigation
13 proposal be rejected. Staff Witness Mullinax argues that while pension and
14 OPEB expenses are influenced by market returns and interest rates, these
15 expenses are not wholly beyond the Company's control, and that the Company's
16 management does exercise influence over the levels of pension, OPEB and
17 uncollectible expenses. She also claims that this type of rider removes risk from
18 shareholders and places it on the customers; that this would be a departure from
19 long-standing test period ratemaking precedent; and that it would reduce the
20 Company's cost containment incentives. DPA Witness Cotton claims that this
21 mitigation plan is simply a reimbursement plan and is therefore contrary to sound
22 regulation.

23 **12. Q: What is the Company's response to these criticisms?**

1 A: These criticisms ignore the benefits to customers of the proposal. While
2 not the same type of mitigation proposal that the Staff submitted in the last case,
3 (Docket No. 05-304), the Company's proposed alternative would nonetheless
4 reduce the amount of the needed rate increase in this proceeding. This mechanism
5 is a better way of handling expenses that by their very nature increase and
6 decrease. This would benefit both customers and Delmarva because cost recovery
7 will be accurate under this proposed mechanism.

8 **13. Q: Please comment on Staff Witness Mullinax's testimony that Rider VM**
9 **reduces the Company's cost containment incentive and that these costs are**
10 **not beyond the Company's control.**

11 A: Pension and OPEB costs are driven largely by two factors that are clearly
12 out of management's control: 1) the discount rate used to value pension and
13 OPEB liabilities, which is based entirely on prevailing interest rates; and 2) the
14 performance of the pension and OPEB investments, the return on which lowers
15 the expenses. A mere 25 basis point change in the discount rate changes PHI's
16 pension liability by \$40 million. In addition, a 10% change in the value of PHI's
17 pension trust will affect its annual pension expense by approximately \$10 million.
18 Management cannot control the performance of the financial markets. Therefore,
19 though management has a role in the determination of some of the actuarial inputs
20 to the expense computation and in the basic structure of the plans, the most
21 significant factors driving the expense levels are not controllable by management,
22 and any harmful effects on management incentives to control costs.

23 **14. Q: What is your conclusion on the Rider VM?**

1 A: There can be no dispute that these expenses show great variability and are
2 beyond the Company's control. The Rider VM mitigation mechanism provides a
3 better match of the costs and recovery and will also delay the need for rate case
4 filings and lengthen the time between rate cases. Based on these facts, I
5 recommend that the Commission adopt this alternative ratemaking proposal.

6 **15. Q. Please comment on the parties' recommendations regarding the Company's**
7 **compensation programs.**

8 A. Company Witness Jenkins will provide Rebuttal Testimony regarding the
9 efforts the Company undertakes to insure that its compensation programs are
10 comparable to programs found in the industry and in the region. I would also note
11 that Delmarva is in competition for skilled personnel and, if we do not provide
12 comparable compensation programs, we will be at an unacceptable disadvantage
13 in the labor market. Our most critical resources are our employees. Therefore, it
14 is vital that we offer attractive compensation plans in order to recruit and retain a
15 skilled and motivated workforce. Attracting and maintaining skilled employees
16 through a reasonable compensation plan is a clear benefit to customers. Mr.
17 Jenkins addresses this issue in more detail in his Rebuttal Testimony.

18 **16. Q: Please identify the Company's rebuttal witnesses.**

19 A: Company Witness Roger A. Morin rebuts the recommendations of the
20 witnesses for the Commission Staff, DEUG, and DPA on rate of return and return
21 on equity issues.

22 Company Witness W. Michael VonSteuben will provide a complete listing
23 of all uncontested adjustments. He will also address DPA Witness Cotton's and

1 Staff Witness Mullinax's failure to recognize known and certain changes
2 occurring outside of the test period. He will also provide Rebuttal Testimony to
3 the contested adjustments and proposals made by DPA Witness Cotton, Crane and
4 Staff Witness Mullinax. In addition, Company Witness VonSteuben is
5 responsible for quantifying the revenue requirements of the Company's rebuttal
6 position and will address Staff Witness Mullinax's position on including the
7 Wilmington Franchise Tax in the factor used to develop the final revenue
8 requirement in this proceeding.

9 Company Witness William Gausman will rebut DPA Witness Cotton's
10 and Staff Witness Mullinax's testimony on adjustments to Reliability Plant
11 Closings.

12 Company Witness Ernest L. Jenkins, Sr. will rebut DPA Witness Cotton's
13 and Staff Witness Mullinax's testimony on compensation, executive
14 compensation and supplemental executive retirement plan issues.

15 Company Witness Joseph F. Janocha will rebut portions of the testimony
16 of witnesses for DPA, Staff and Walmart on rate design issues.

17 Company Witness Elliott P. Tanos will address Staff Witness Howard
18 Solganick's claims of deficiencies in the Company's Cost of Service Study.

19 Company Witness Jay Ziminsky will rebut portions of the testimony of
20 witnesses for DPA and Staff on pension expense issues.

21 17. **Q: Does this conclude your rebuttal testimony?**

22 A: Yes, it does.

Average Equity Returns Authorized January 1990 - December 2009**Schedule AJK R-1**

Year	Period	Electric Utilities		Gas Utilities	
		ROE %	(# Cases)	ROE %	(# Cases)
1990	Full Year	12.70	(44)	12.67	(31)
1991	Full Year	12.55	(45)	12.46	(35)
1992	Full Year	12.09	(48)	12.01	(29)
1993	Full Year	11.41	(32)	11.35	(45)
1994	Full Year	11.34	(31)	11.35	(28)
1995	Full Year	11.55	(33)	11.43	(16)
1996	Full Year	11.39	(22)	11.19	(20)
1997	Full Year	11.40	(11)	11.29	(13)
1998	Full Year	11.66	(10)	11.51	(10)
1999	Full Year	10.77	(20)	10.66	(9)
2000	Full Year	11.43	(12)	11.39	(12)
2001	Full Year	11.09	(18)	10.95	(7)
2002	Full Year	11.16	(22)	11.03	(21)
2003	1st Quarter	11.47	(7)	11.38	(5)
	2nd Quarter	11.16	(4)	11.36	(4)
	3rd Quarter	9.95	(5)	10.61	(5)
	4th Quarter	11.09	(6)	10.84	(11)
	Full Year	10.97	(22)	10.99	(25)
2004	1st Quarter	11.00	(3)	11.10	(4)
	2nd Quarter	10.54	(6)	10.25	(2)
	3rd Quarter	10.33	(2)	10.37	(8)
	4th Quarter	10.91	(8)	10.66	(6)
	Full Year	10.75	(19)	10.59	(20)
2005	1st Quarter	10.51	(7)	10.65	(2)
	2nd Quarter	10.05	(7)	10.54	(5)
	3rd Quarter	10.84	(4)	10.47	(5)
	4th Quarter	10.75	(11)	10.40	(14)
	Full Year	10.54	(29)	10.46	(26)
2006	1st Quarter	10.38	(3)	10.63	(6)
	2nd Quarter	10.68	(6)	10.50	(2)
	3rd Quarter	10.06	(7)	10.45	(3)
	4th Quarter	10.39	(10)	10.14	(5)
	Full Year	10.36	(26)	10.43	(16)
2007	1st Quarter	10.27	(8)	10.44	(10)
	2nd Quarter	10.27	(11)	10.12	(4)
	3rd Quarter	10.02	(4)	10.03	(8)
	4th Quarter	10.56	(16)	10.27	(15)
	Full Year	10.36	(39)	10.24	(37)
2008	1st Quarter	10.45	(10)	10.38	(7)
	2nd Quarter	10.57	(8)	10.17	(3)
	3rd Quarter	10.47	(11)	10.49	(7)
	4th Quarter	10.33	(8)	10.34	(13)
	Full Year	10.46	(37)	10.37	(30)
2009	1st Quarter	10.29	(9)	10.24	(4)
	2nd Quarter	10.55	(10)	10.11	(8)
	3rd Quarter	10.46	(3)	9.88	(2)
	4th Quarter	10.54	(17)	10.27	(15)
	Full Year	10.48	(39)	10.19	(29)

PSC DOCKET NOS. 09-414 & 09-276T
DIVISION OF THE PUBLIC ADVOCATE'S
FOLLOW UP DATA REQUESTS TO
DELMARVA POWER & LIGHT COMPANY

Schedule AJK R-2

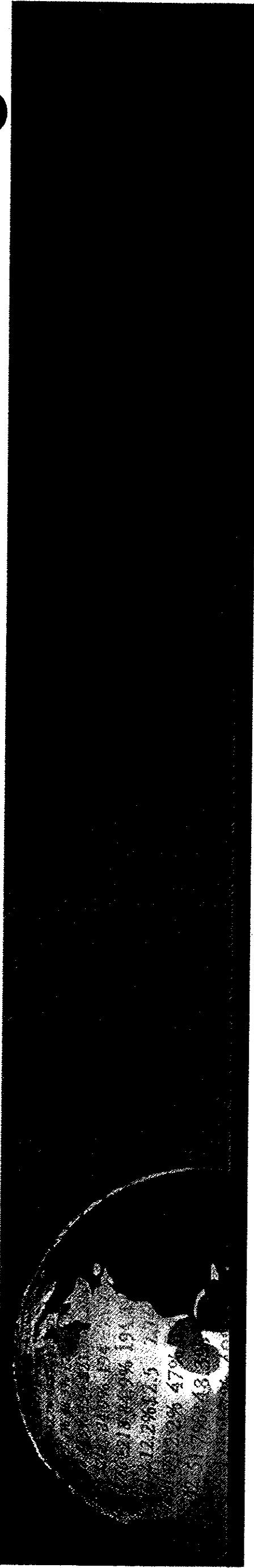
Question No. : DPA-A-179

Regarding the response to DPA-A-79, concerning Productivity Studies, please provide a copy of the Summary pages of the five most recent productivity studies.

RESPONSE:

See attachment for a 2009 benchmarking study performed by The Hackett Group. The study involved analysis of Pepco Holdings Inc.'s Administrative and General functions in five major areas (Finance, Human Resources, Information Technology, Procurement and Executive & Corporate Services).

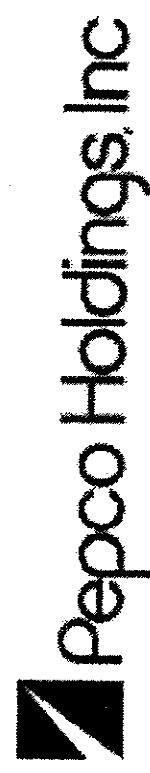
Respondent: W. Michael VonSteuben



G&A Benchmark Results

DPA-A-179

Presented to:



Presented by:

The Hackett Group

February 4, 2009

 **The Hackett Group**

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Objectives in Completing the Benchmark

- Establish a baseline of Pepco Holdings' General and Administrative organization
 - Identify staff mix and resource allocation
 - Identify key cost drivers
- Compare Pepco Holdings' General & Administrative functions to peer group organizations

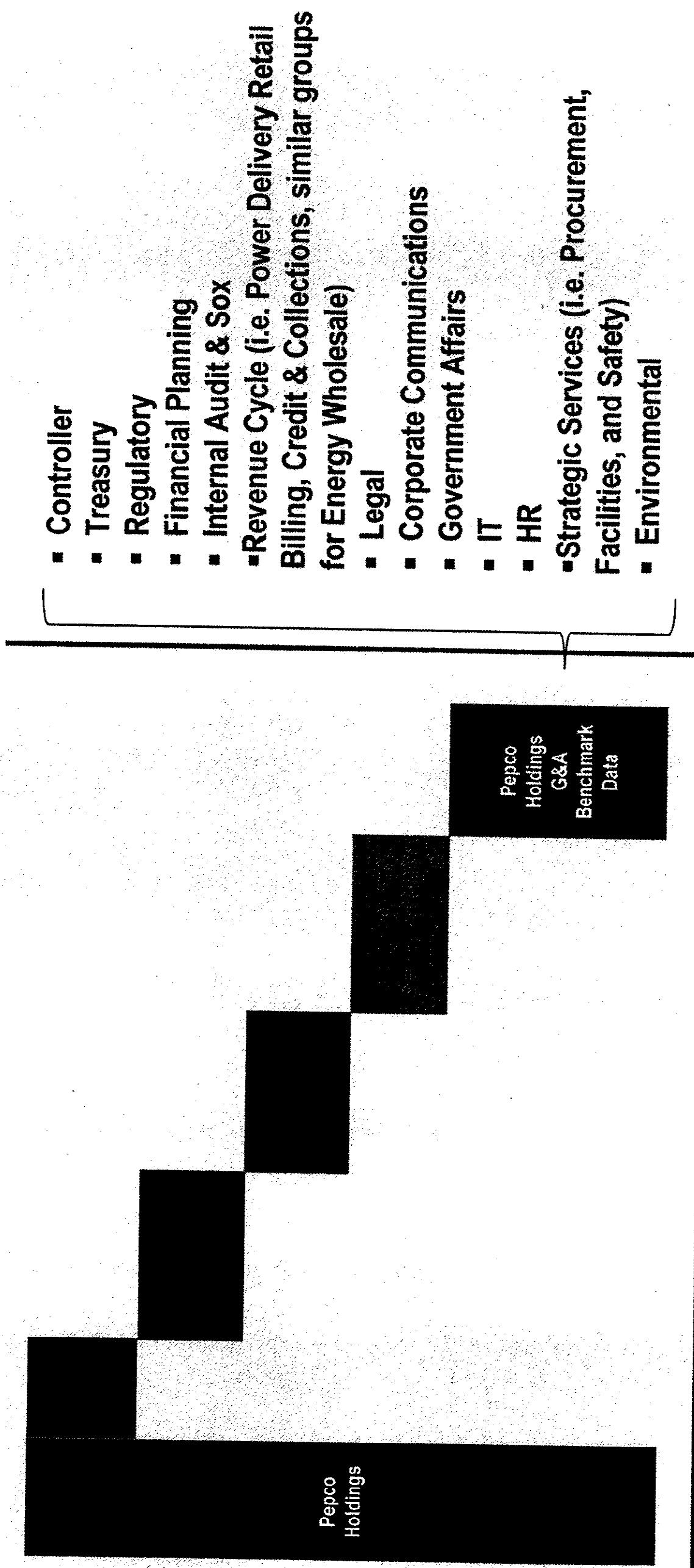


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Pepco Holdings Benchmark Scope

PHI Service Company - Benchmark Scope



- The benchmark period for which costs, full-time equivalents ("FTEs"), practice related and volume data were collected was calendar year 2007 (December 31, 2007).



Data was Collected in Accordance With Hackett's G&A Taxonomy for Comparability; Processes are Defined End to End

General and Administrative Scope	
Finance	<ul style="list-style-type: none"> ▪ Cash Disbursements <ul style="list-style-type: none"> - Accounts Payable - Travel and Expenses - Revenue Cycle - Credit - Customer Billing - Collections - Cash Application - Fixed Assets - Accounting and External Reporting - Intercompany accounting - General ledger accounting - Cost Accounting - External Reporting - Tax Management - Treasury Management
Human Resources	<ul style="list-style-type: none"> ▪ Total Rewards Administration <ul style="list-style-type: none"> - Payroll Services - Data Mgmt., Reporting & Compliance - Staffing Services - Labor Relations - Workforce Development Services - Organizational Effectiveness - Total Rewards Planning - Strategic Workforce Planning - Function Management
Information Technology	<ul style="list-style-type: none"> ▪ Technology Infrastructure <ul style="list-style-type: none"> - Infrastructure Management - End User Support - Infrastructure Development - Application Management - Application Maintenance - Application Development & Implementation - Planning & Strategy - Quality Assurance - Risk Management ▪ IT Business Planning ▪ Enterprise Architecture Planning ▪ Emerging Technologies ▪ Function Management
Executive & Corporate Services	<ul style="list-style-type: none"> ▪ General Administration Management <ul style="list-style-type: none"> - Travel and Transportation Services - Real Estate & Facilities Management - Government Affairs - Legal - Quality Management - Risk and Security Management - Corporate Communications - Planning and Strategy - Executive



Capture Staffing and Costs as defined regardless of where they are organizationally located.

Pepco Holdings' G&A Functions are Compared to Custom Utility Organizations

- Peer Group Median - this comparison is against your organization's custom peer group
- Normalization of benchmark data: Peer data are adjusted to "drivers" at your organization.
 - Finance & ECS: Revenue
 - Human Resources: Employees
 - Procurement: Spend
 - Information Technology: End Users

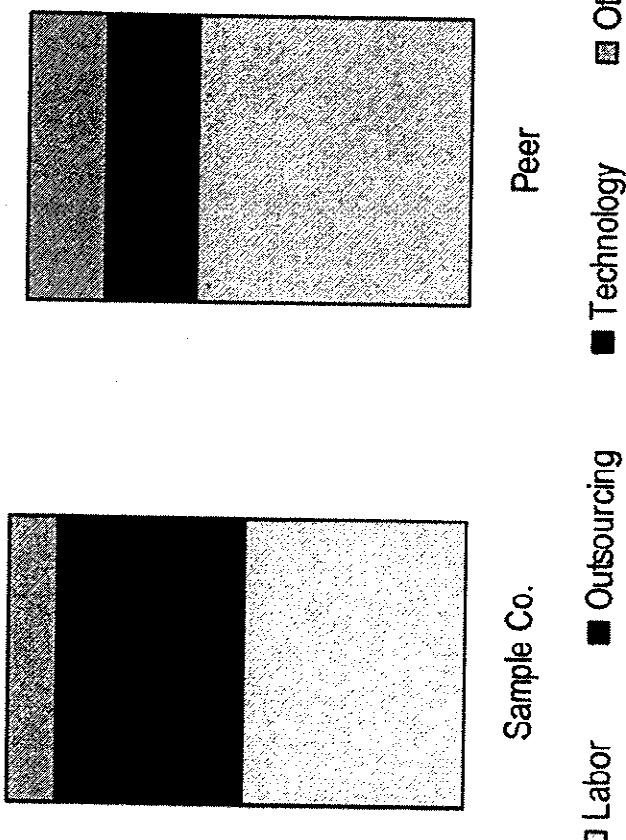


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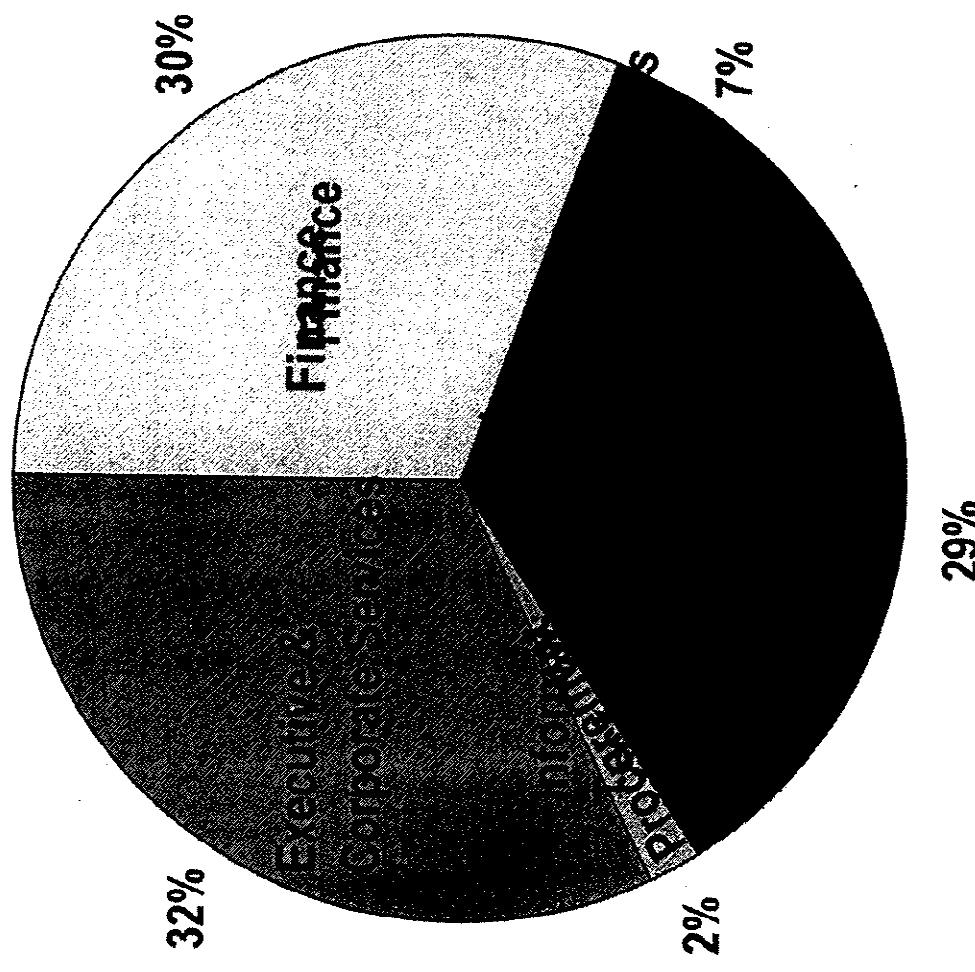


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G&A Cost is \$231.4 Million*, or 2.5% of Revenue

Total G&A Cost: \$231.4 Million



Labor, Outsourcing, and Other Cost (\$ Millions)

- Finance - \$70.4
- Human Resources - \$15.4
- Procurement - \$4.8
- Information Technology* - \$66.5
- Executive & Corporate Services - \$74.3

* Information Technology systems costs allocated in the functional analyses have been excluded from each function's total costs above. Technology support costs are only displayed in IT. Allocated technology to other functional areas totals - \$11.5 Million

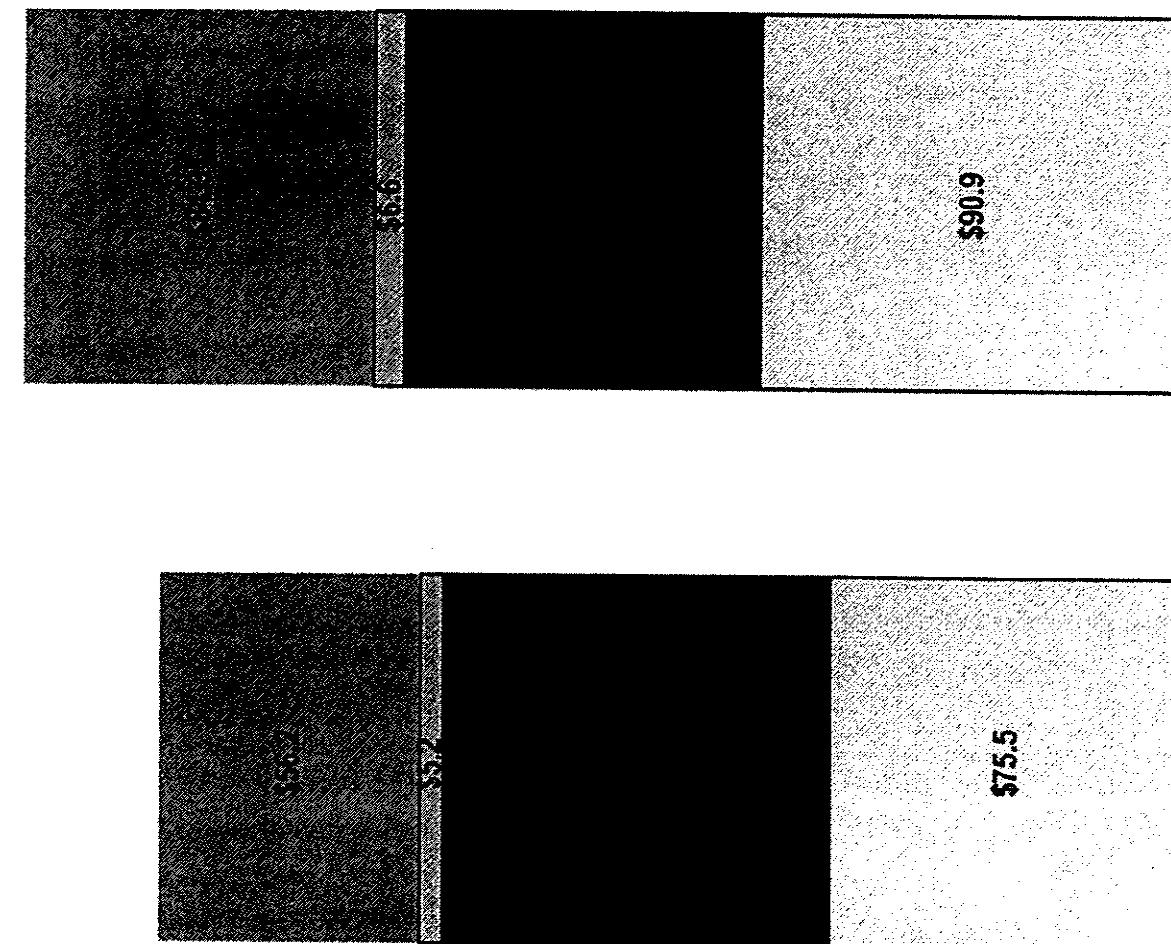
Revenue = \$9.4 Billion
Employees = 4,807
End Users = 5,080
Spend = \$900 Million

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Comparable Aggregate G&A Costs and Staffing Levels Are Lower Than the Benchmark Comparisons

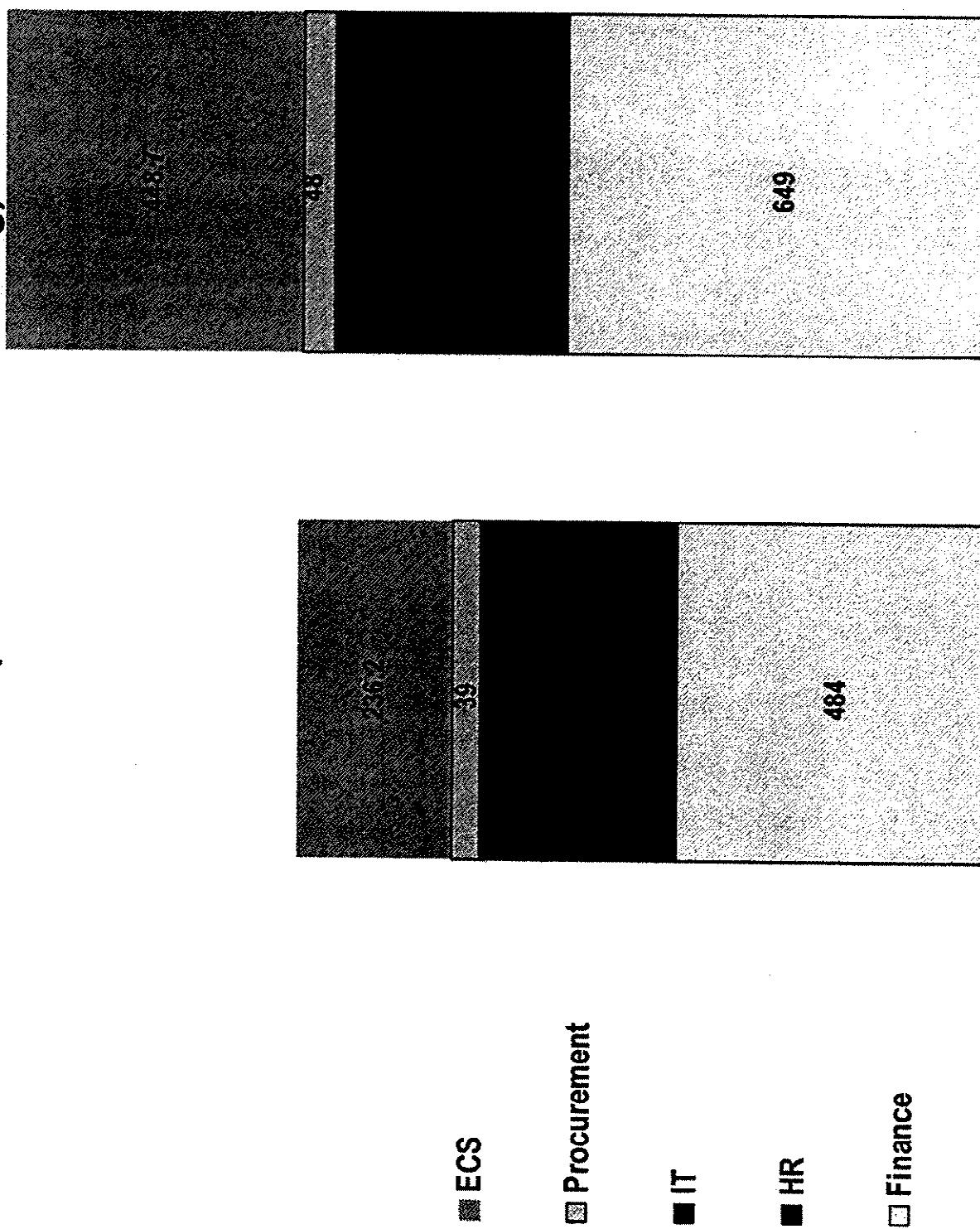
Total cost by function (in millions)



Pepco Holdings
Peer Group

NOTE: Information Technology systems costs have been included for each function and captured in full for T. Pepco Holdings' costs are actual. Peer data is normalized to Pepco Holdings' revenue (\$9.4 B), end users (5,080), employees (4,807) and spend (\$900 Mil).

Total Full Time Equivalents (FTEs) by function (excludes Outsourcing)



Pepco Holdings
Peer Group

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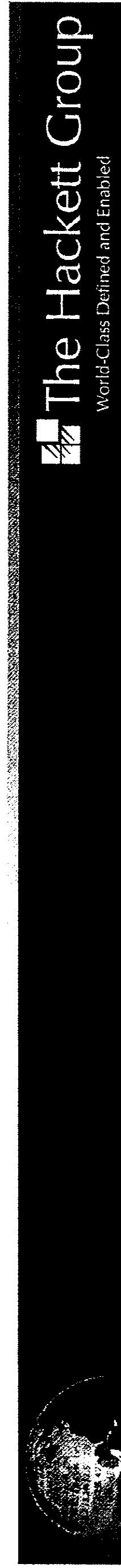
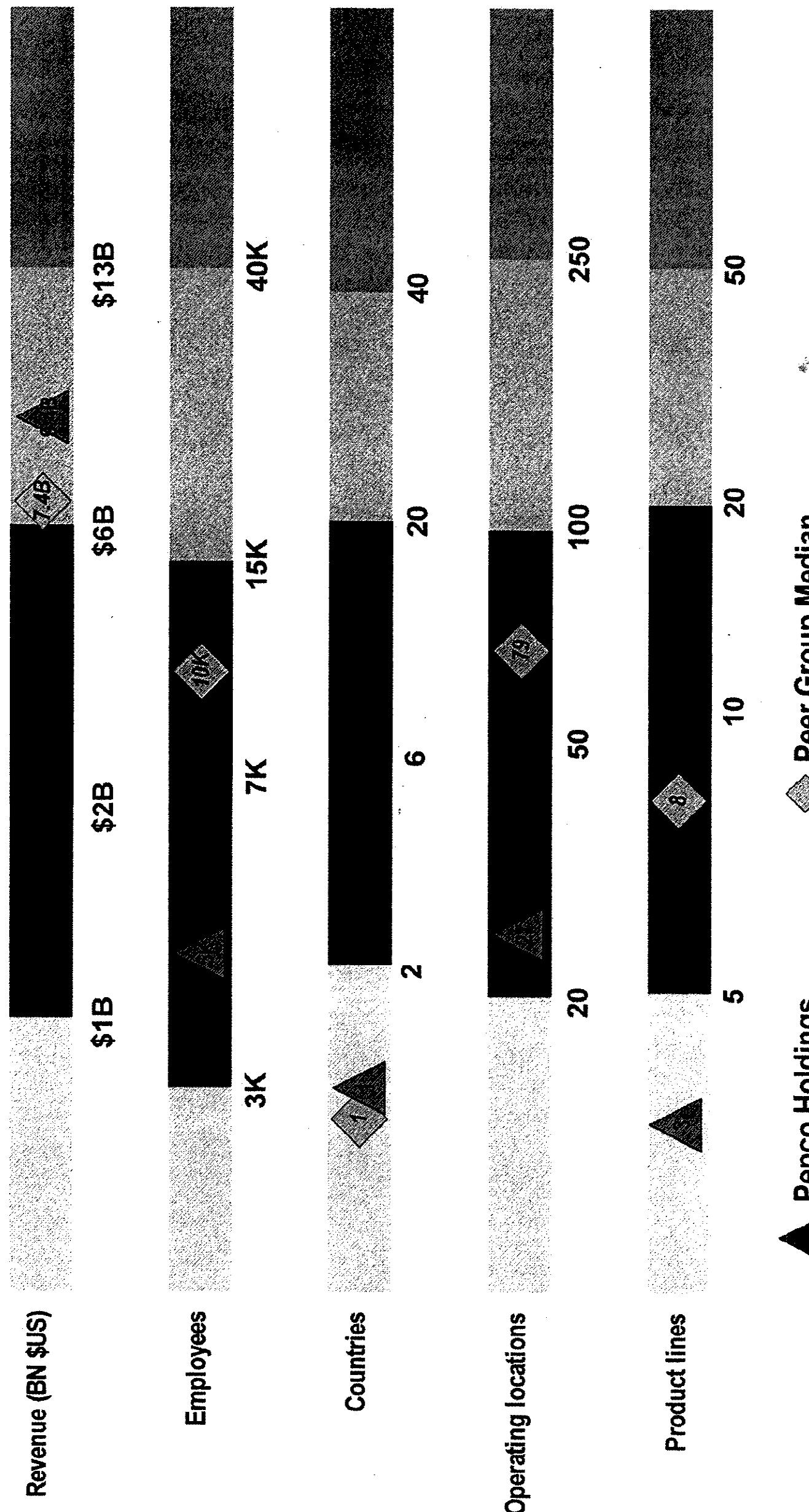
Finance

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Finance Demographics



Peer Group Finance Participants

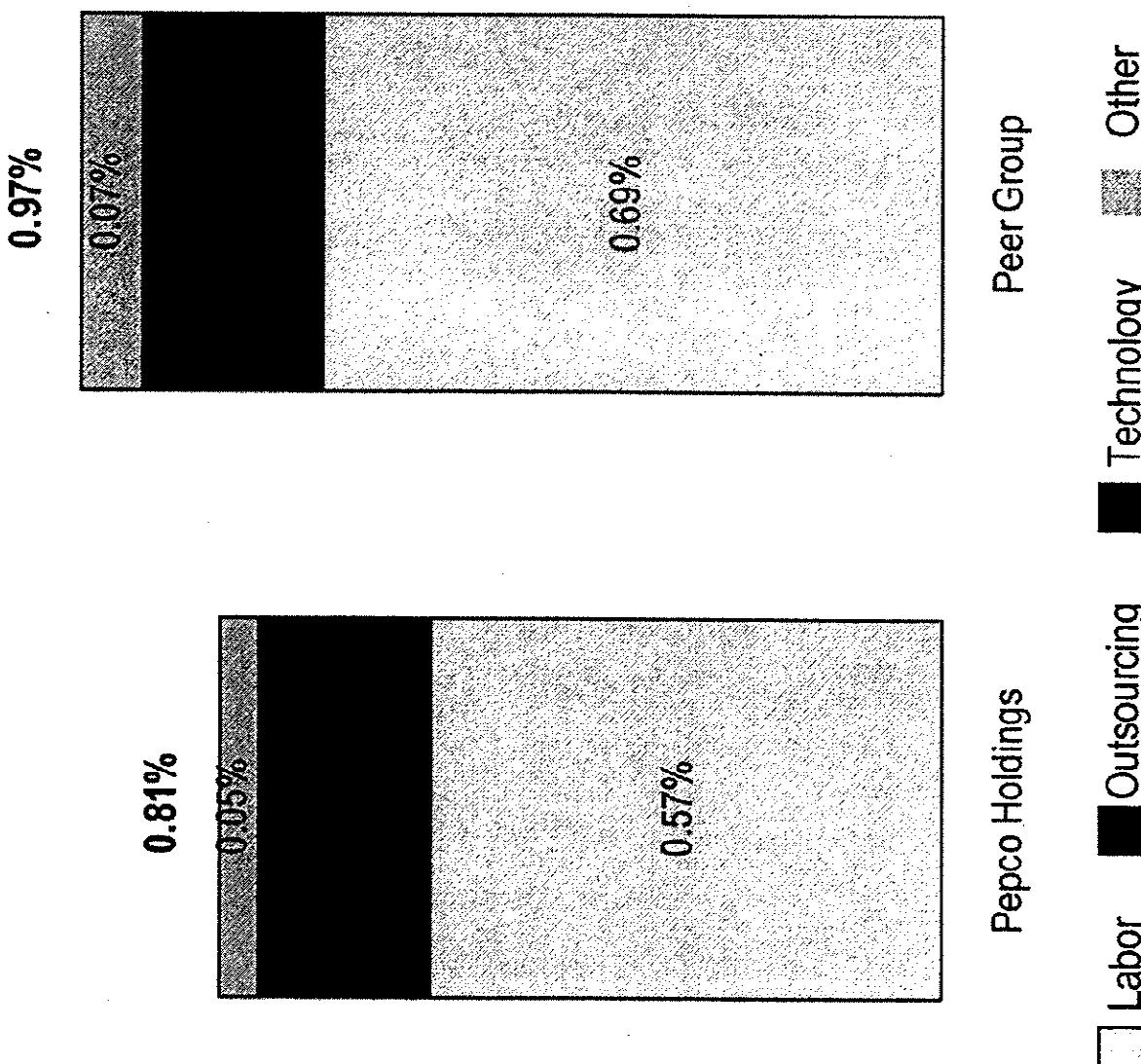
- Ameren Corporation
- Detroit Edison Company (Currently DTE)
- Exelon Corporation
- OGE Energy Corporation
- CMS Energy
- We Energies
- Constellation Energy Group Group
- Florida Power & Light Company (Currently FPL)
- PSEG Corporation

The Hackett Group

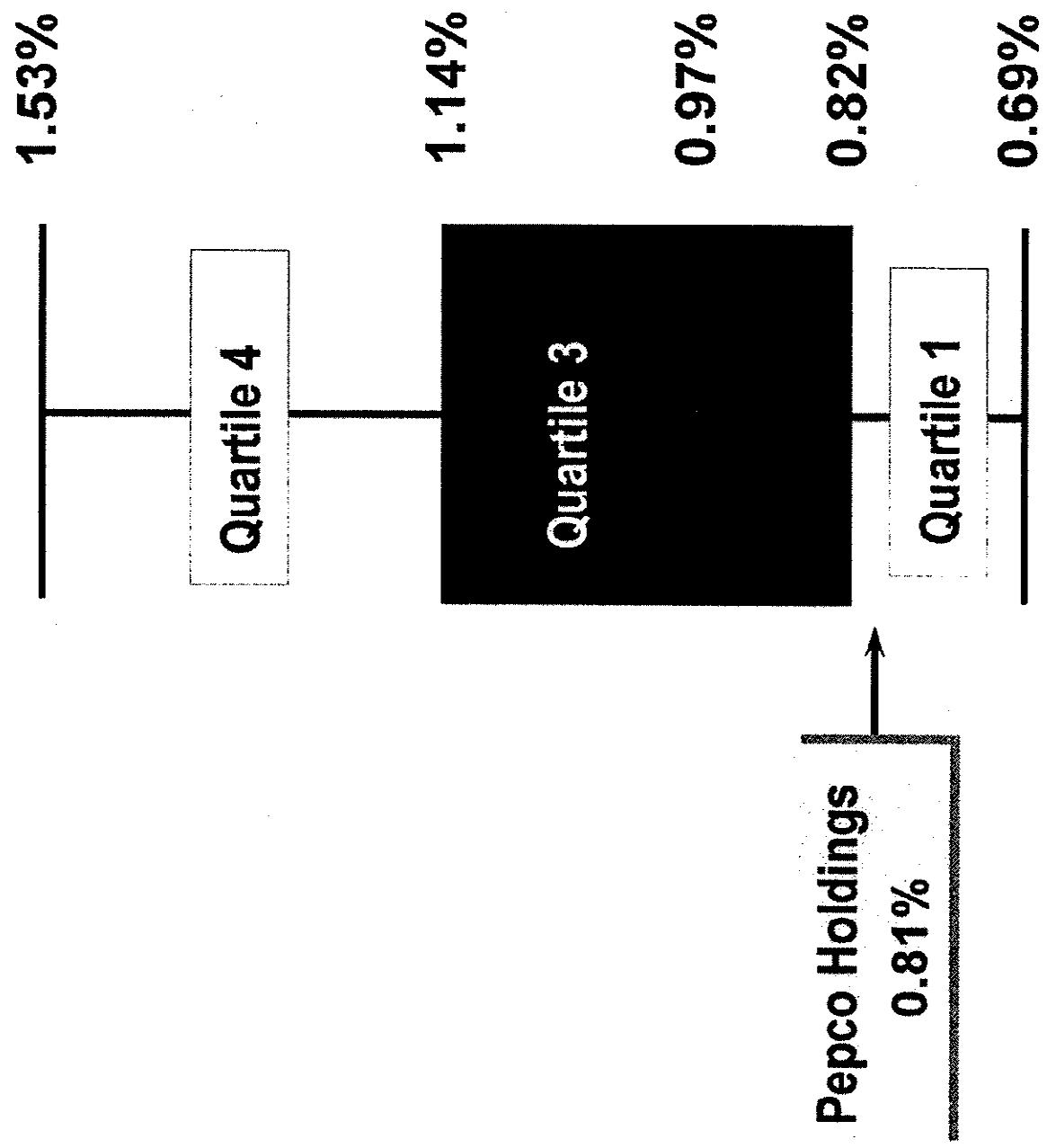
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Finance Cost as a Percent of Revenue by Quartile

Finance Cost as a % of Revenue



Peer Group
Quartile Breakdown as a % of Revenue

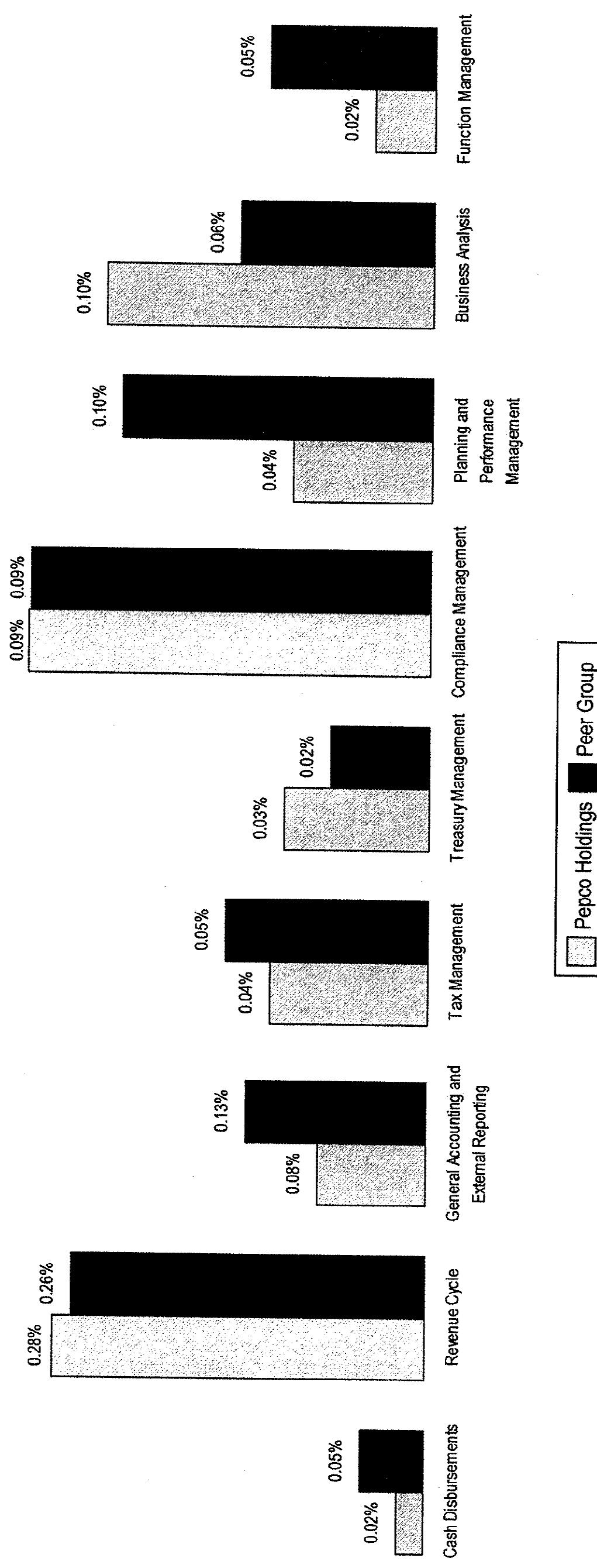


Peer Group
Quartile Breakdown as a % of Revenue



Process Cost as a % of Revenue

Process Cost as a % of Revenue

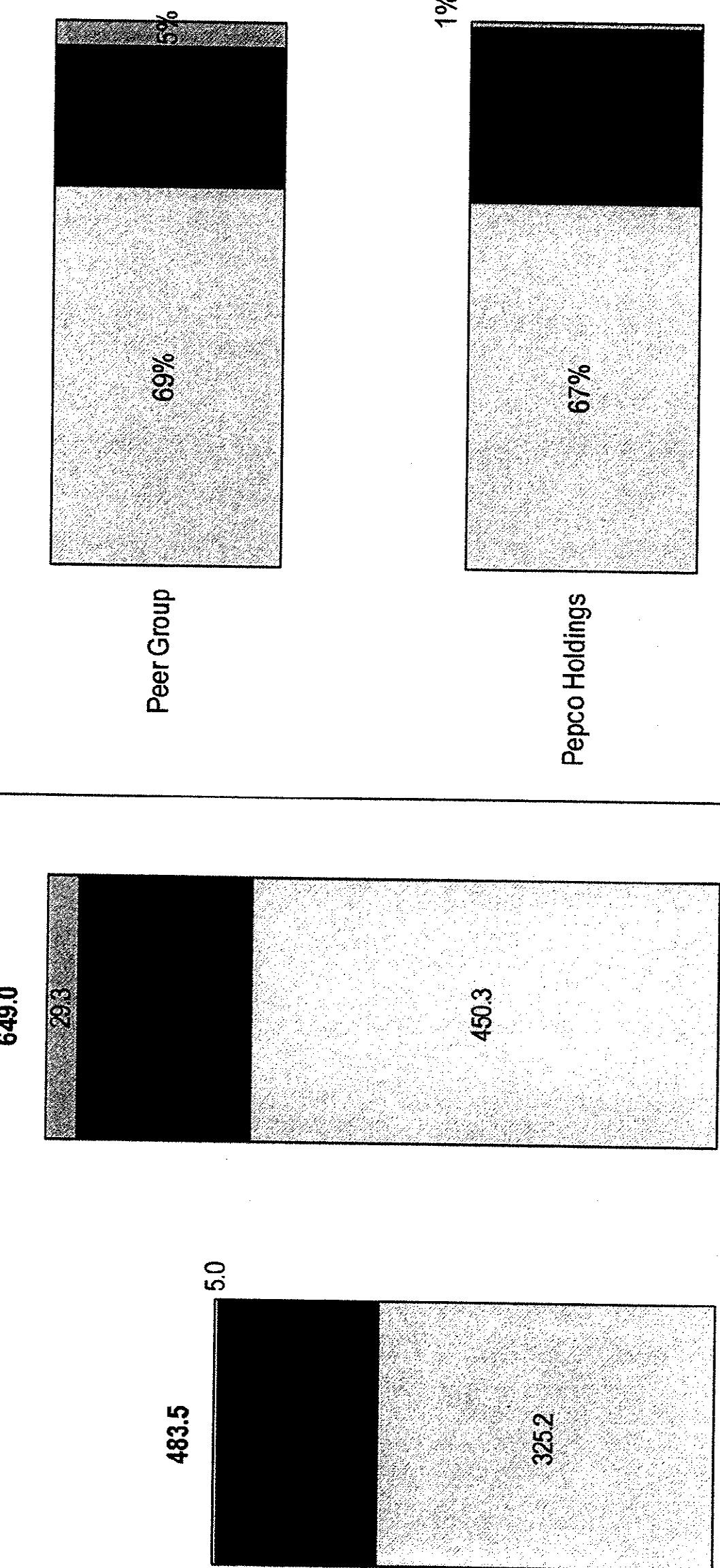


The Hackett Group

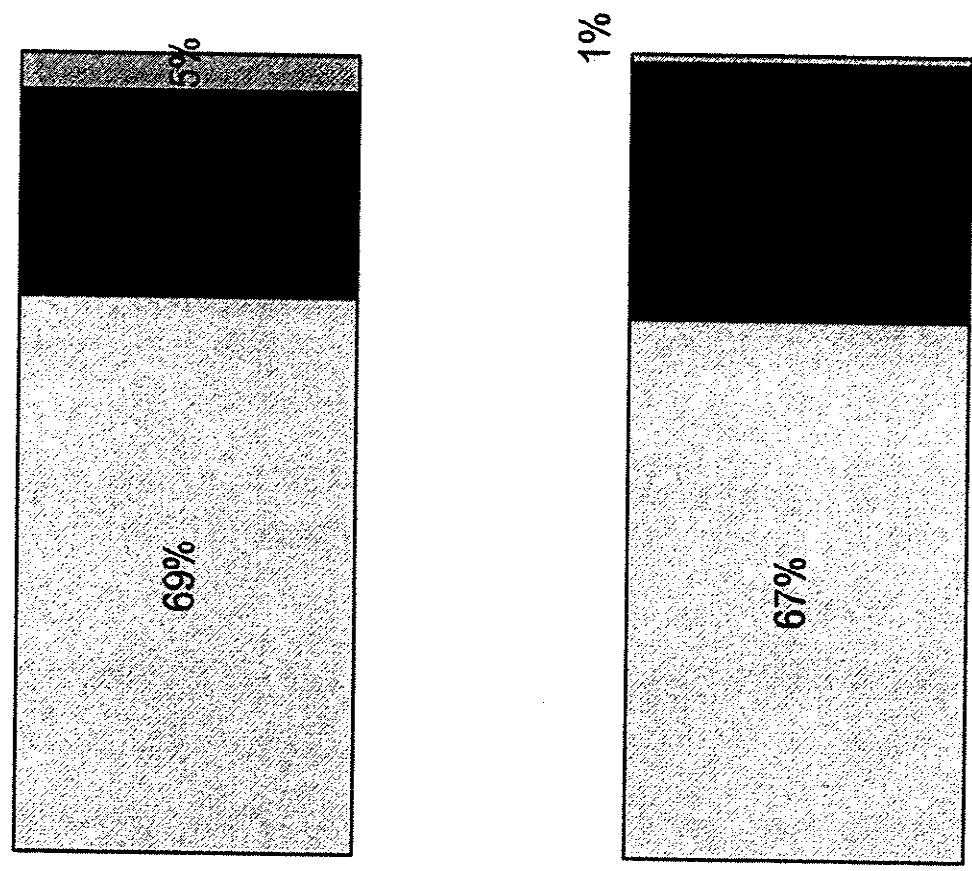
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Finance Staffing and Resource Allocation

Finance Staffing (FTEs)
Peer Group Normalized based on Revenue



Finance Resource Allocation

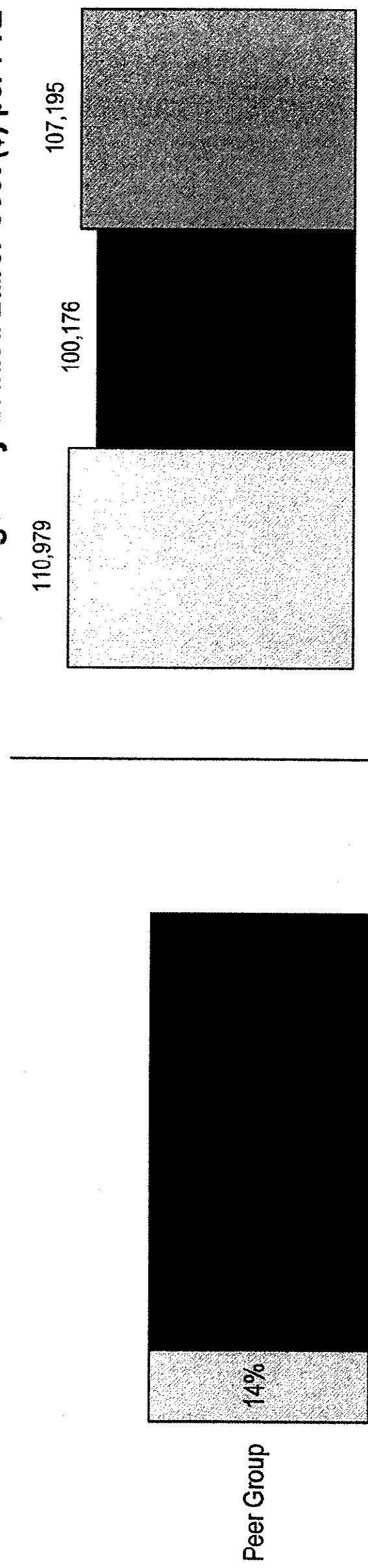


- Transaction Processing
- Control and Risk Management
- Planning and Strategy
- Function Management

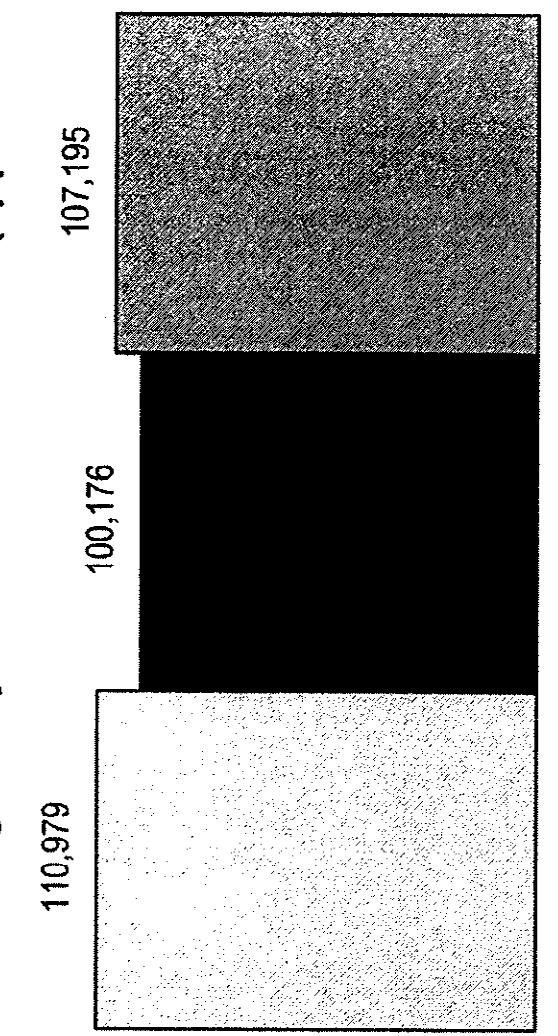


Staff Mix, Labor Rates and Spans of Control

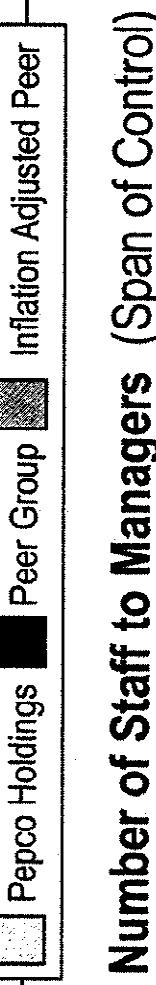
Staff Mix



Average Fully Loaded Labor Cost (\$) per FTE

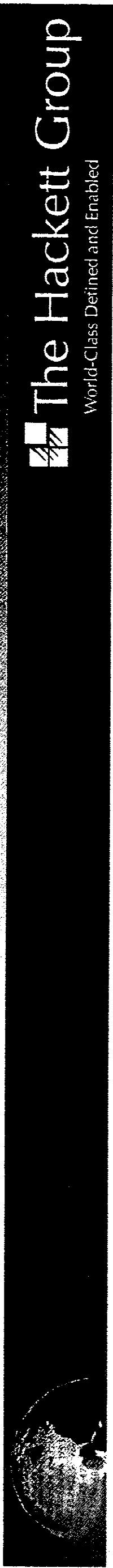


Note: The Hackett Group benchmarked PHI's 'labor cost per FTE' on a national basis. To account for regional influences on wages, Hackett leveraged data from the Department of Labor's Bureau of Labor Statistics. Hackett confirmed that the Northeast region's average wage is 9.9% higher than the national average labor rate.

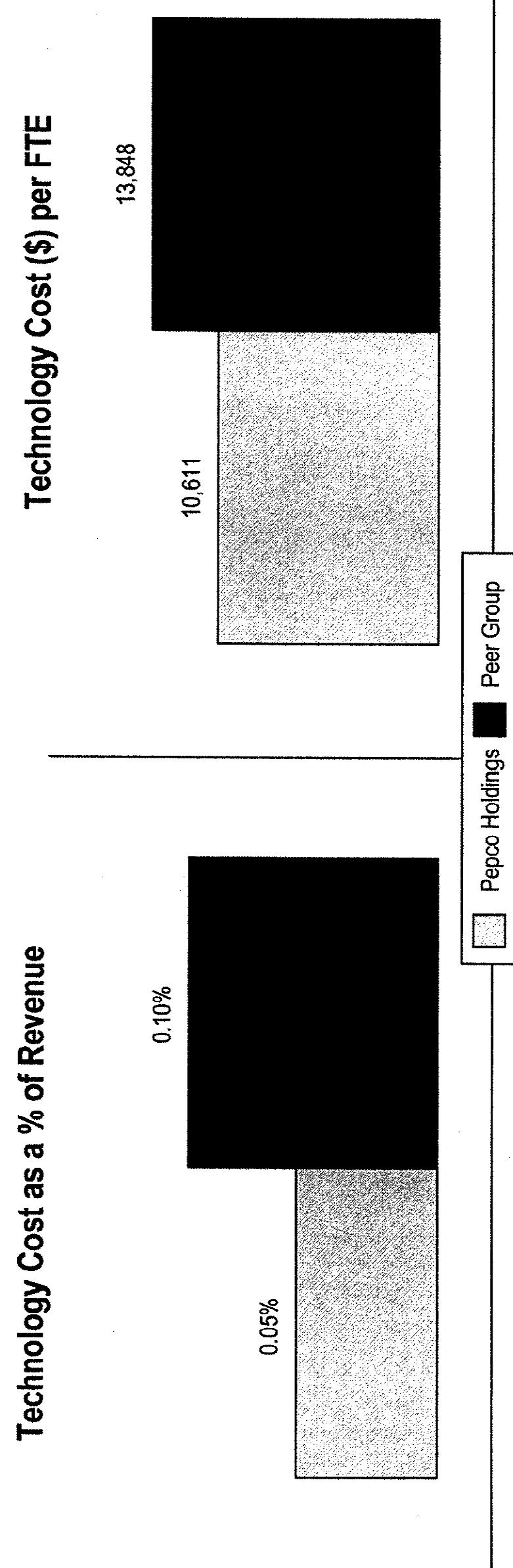


Pepco Holdings
18%

Manager ■ Professional ■ Clerical



Technology Cost as a Percent of Revenue and Cost per Finance FTE



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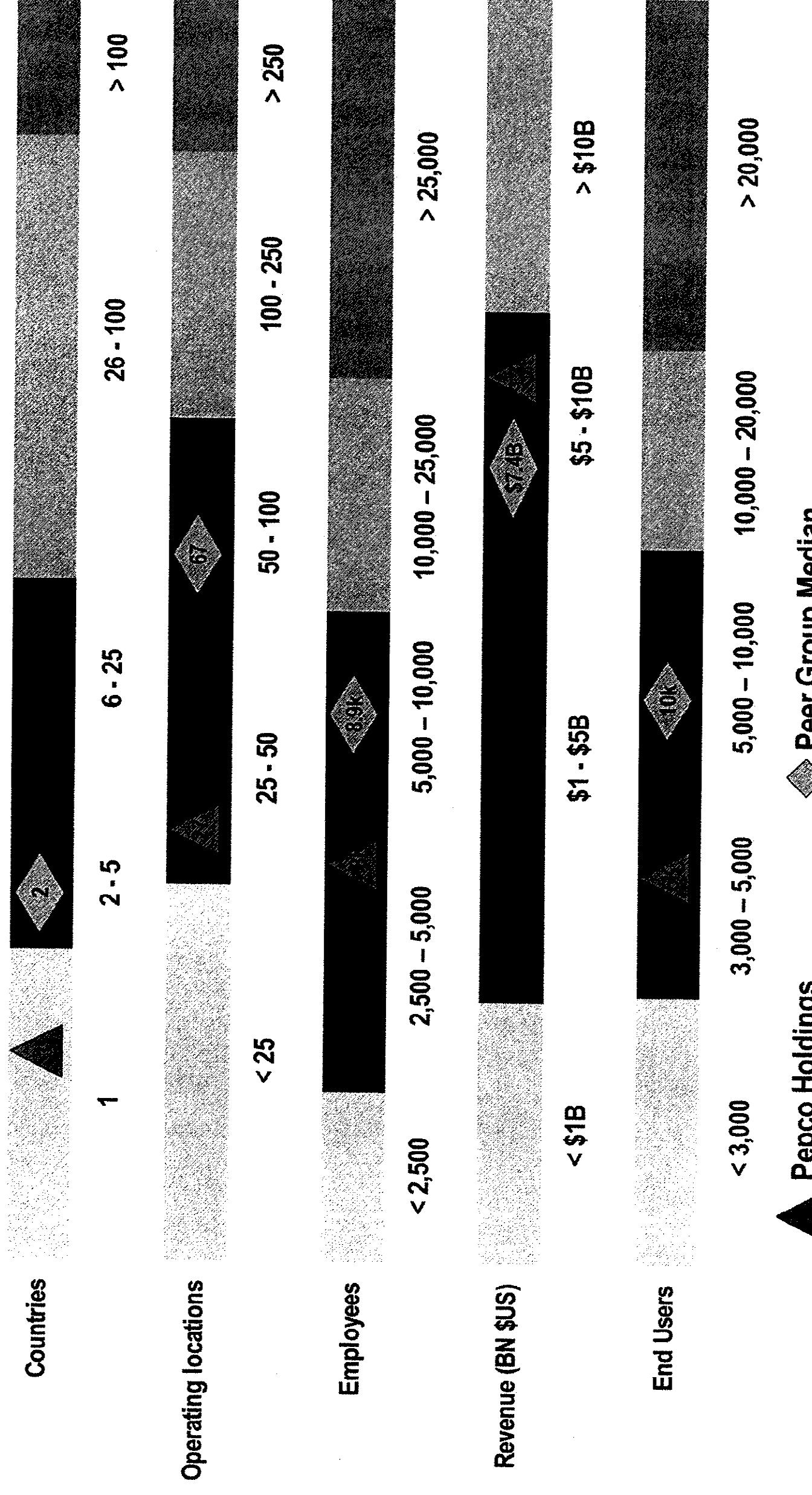
Information Technology

 The Hackett Group

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IT Demographics



 **The Hackett Group**

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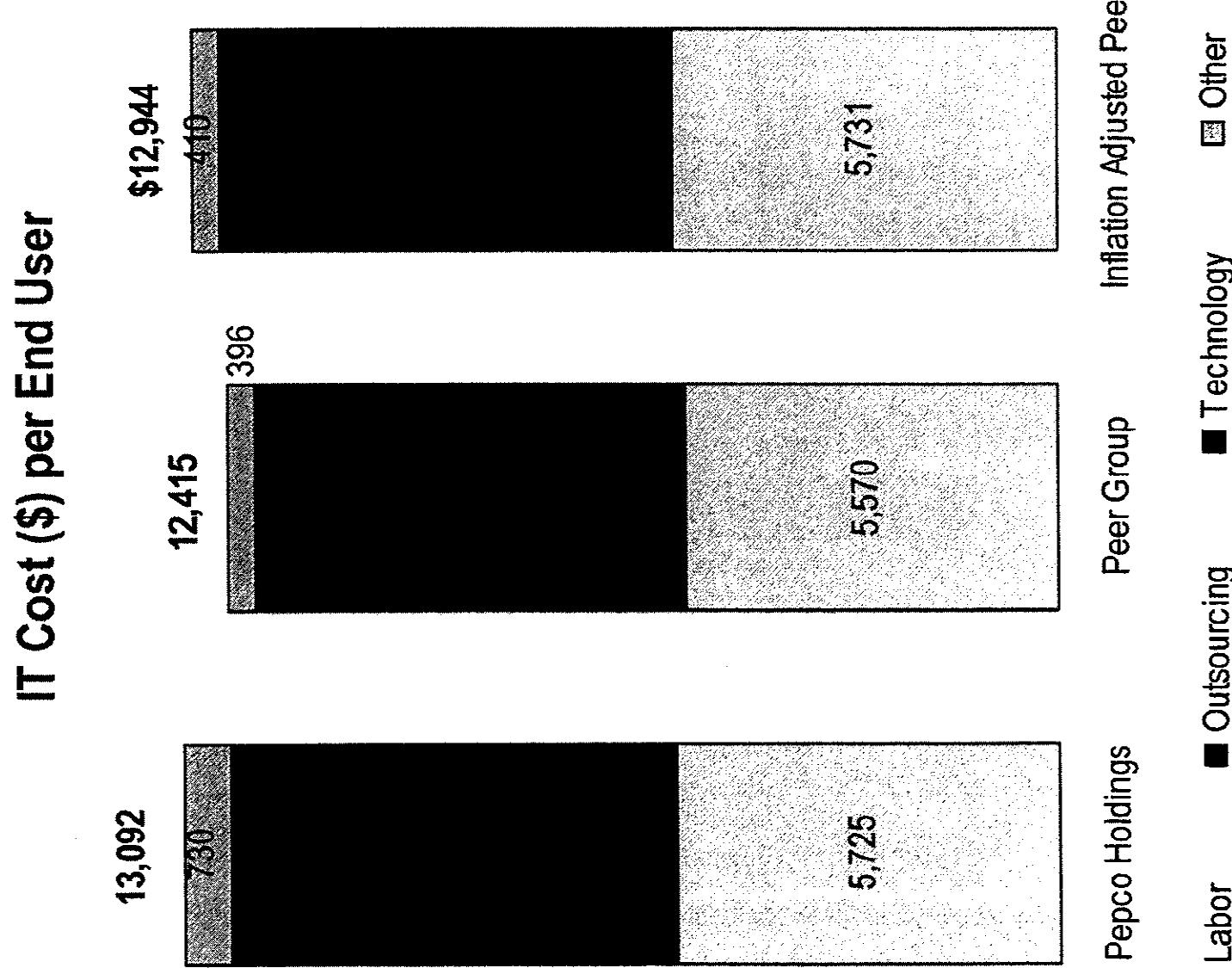
Peer Group IT Participants

- CMS Energy
- Duke Energy Corporation
- We Energies
- Constellation Energy Group
- Florida Power & Light Company (Currently FPL)
- Ameren Corporation
- Detroit Edison Company (Currently DTE Energy)
- OGE Energy Corporation

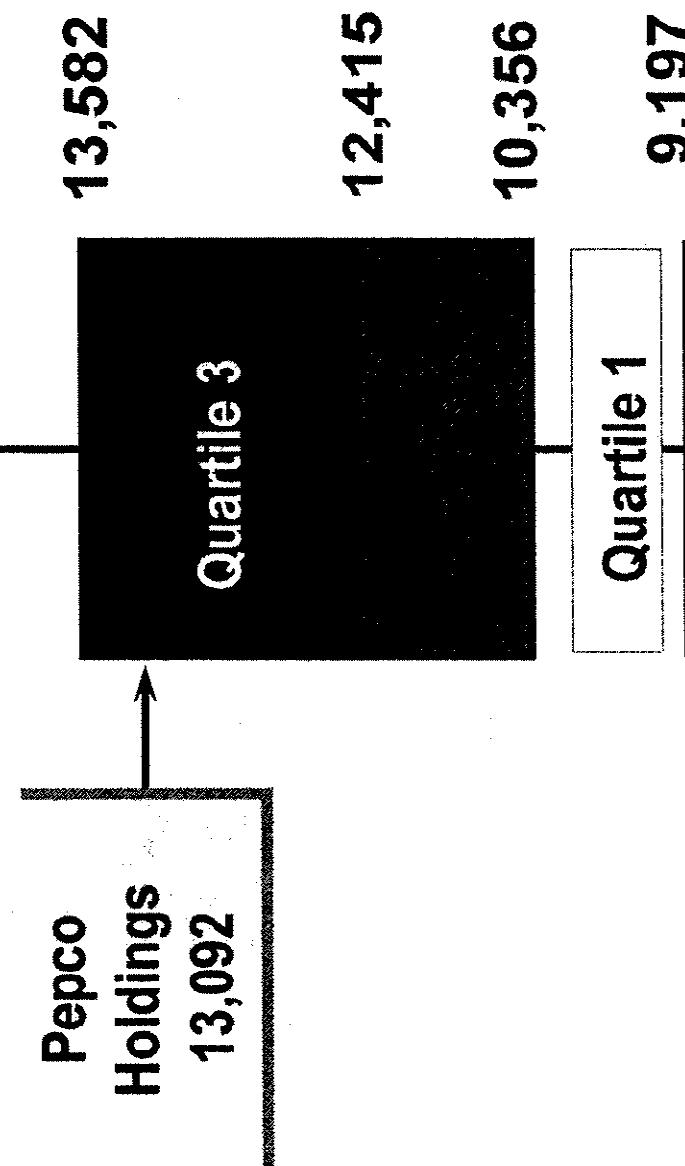
 **The Hackett Group**

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IT Cost per End User by Quartile



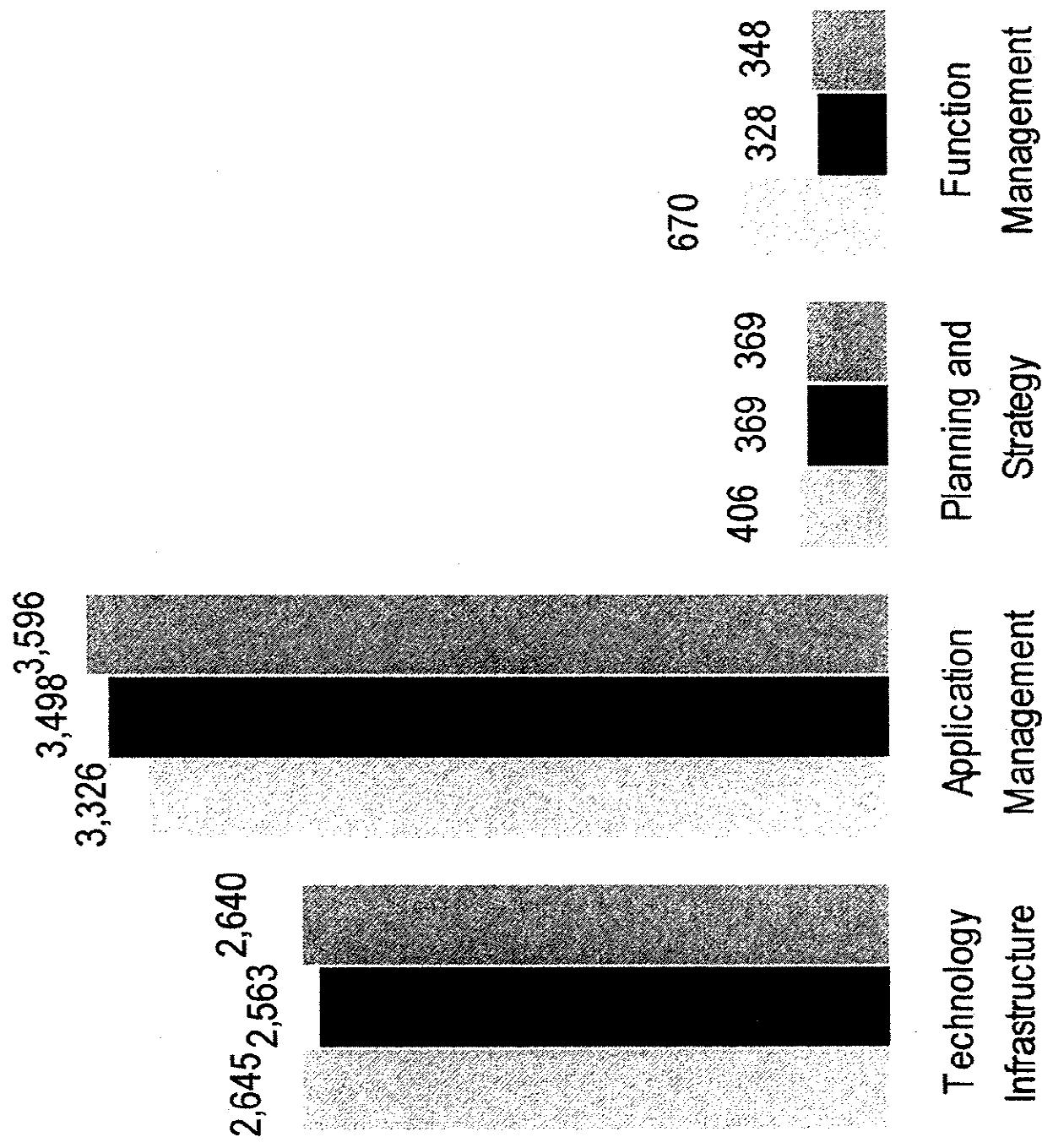
Peer Group Quartile Breakdown
IT Cost (\$) per End User



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IT Process Cost Allocation per End User

IT Process Cost Allocation (\$) per End User
(includes labor and outsourcing)



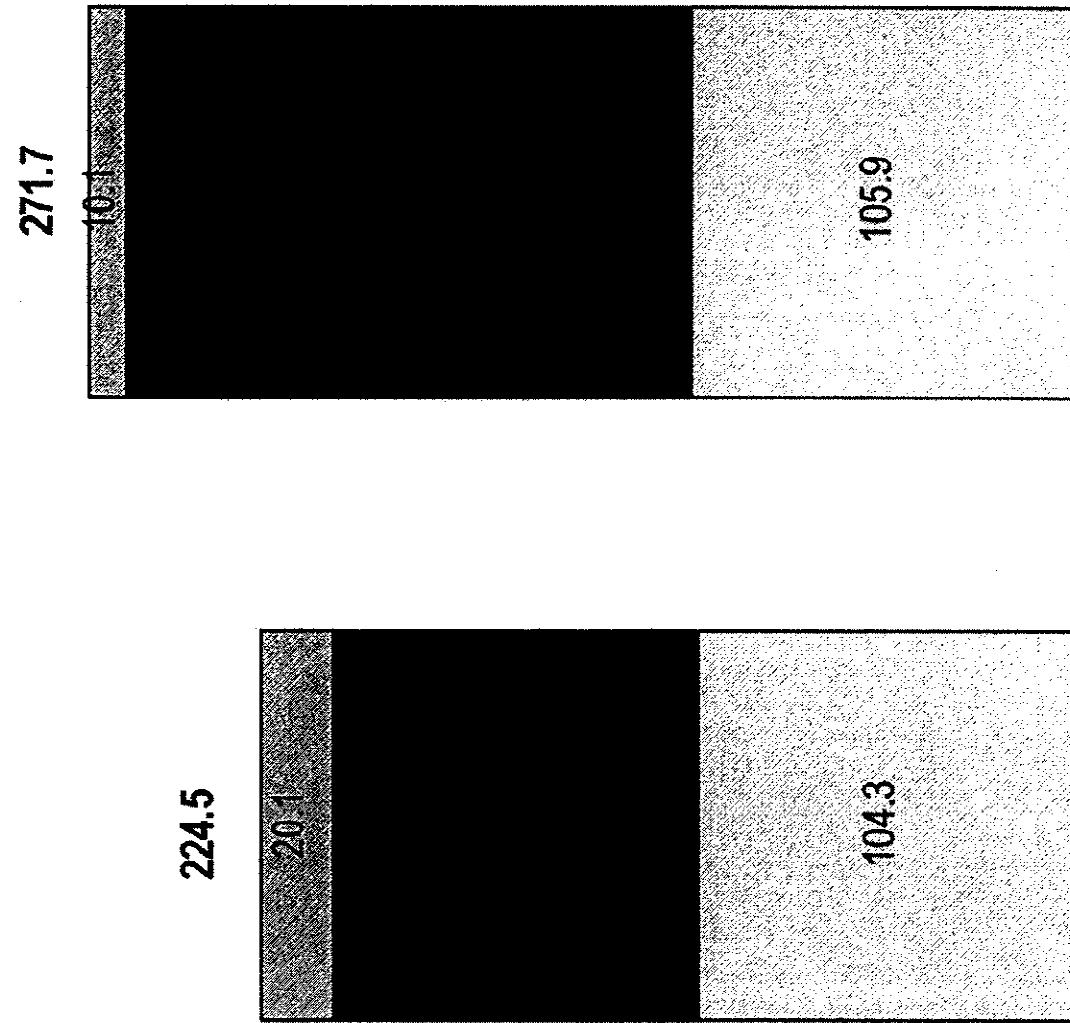
Pepco Holdings ■ Peer Group ☐ Inflation Adjusted Peer



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IT Overall Staffing and Resource Allocation

IT Resource Allocation



- Technology Infrastructure
 - Application Management
 - Function Management
- Planning and Strategy
 - Application Management
 - Function Management

- Application Management
 - Function Management

Peer Group

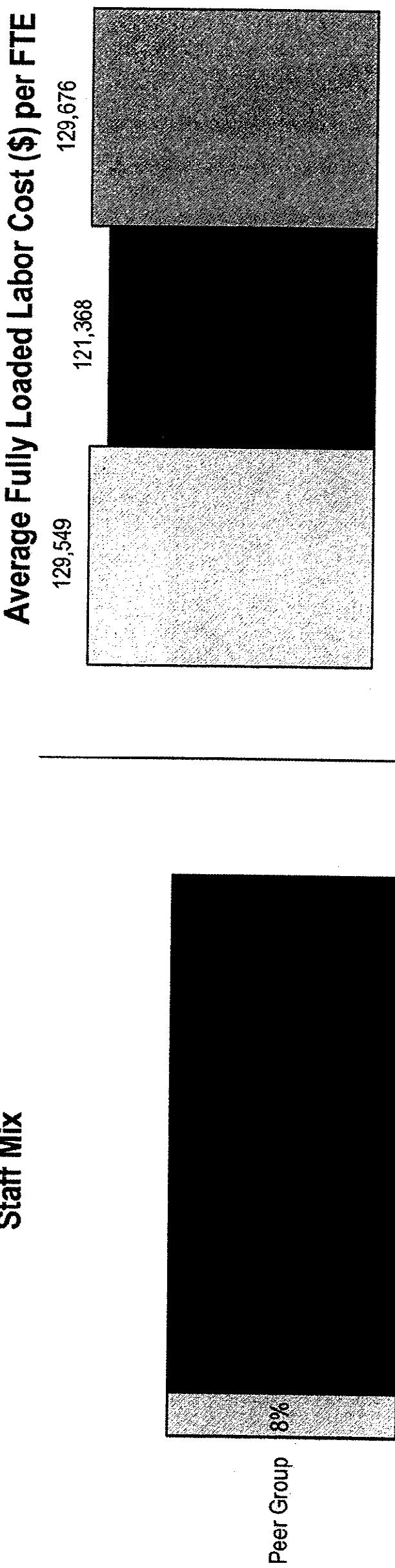
Pepco Holdings



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Staff Mix, Labor Rates and Spans of Control

Staff Mix

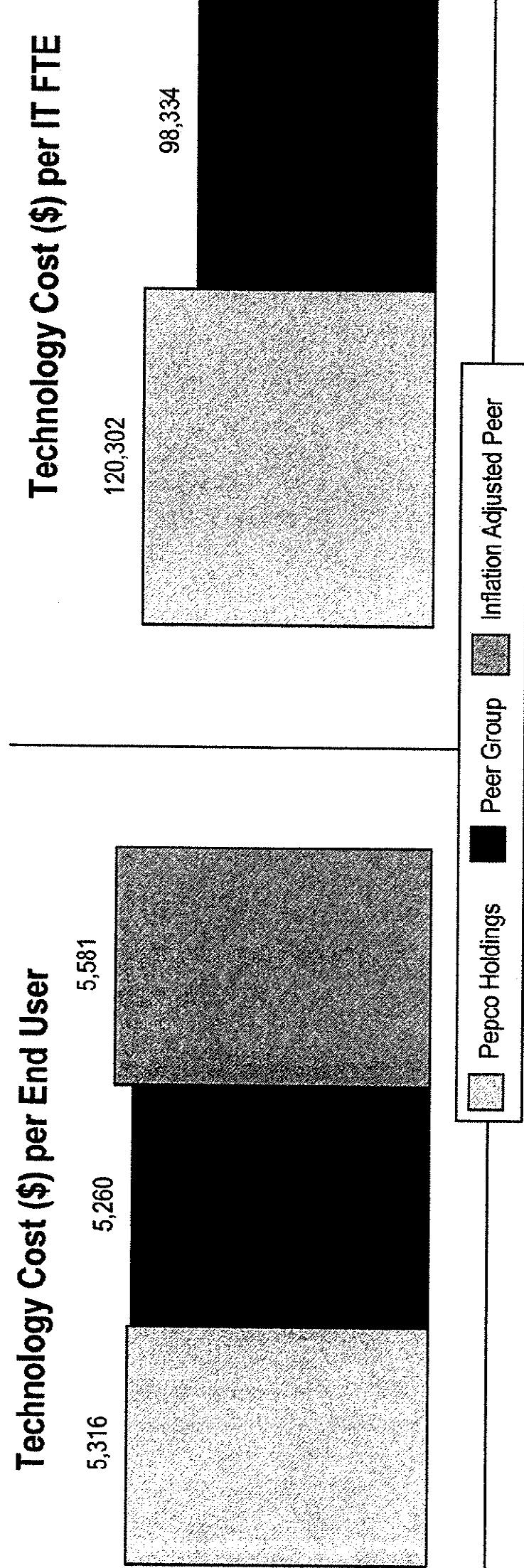


□ Manager ■ Professional ■ Clerical

Note: The Hackett Group benchmarked PHI's 'labor cost per FTE' on a national basis. To account for regional influences on wages, Hackett leveraged data from the Department of Labor's Bureau of Labor Statistics. Hackett confirmed that the Northeast region's average wage is 9.9% higher than the national average labor rate.



Technology Cost per End User and Technology Cost per FTE



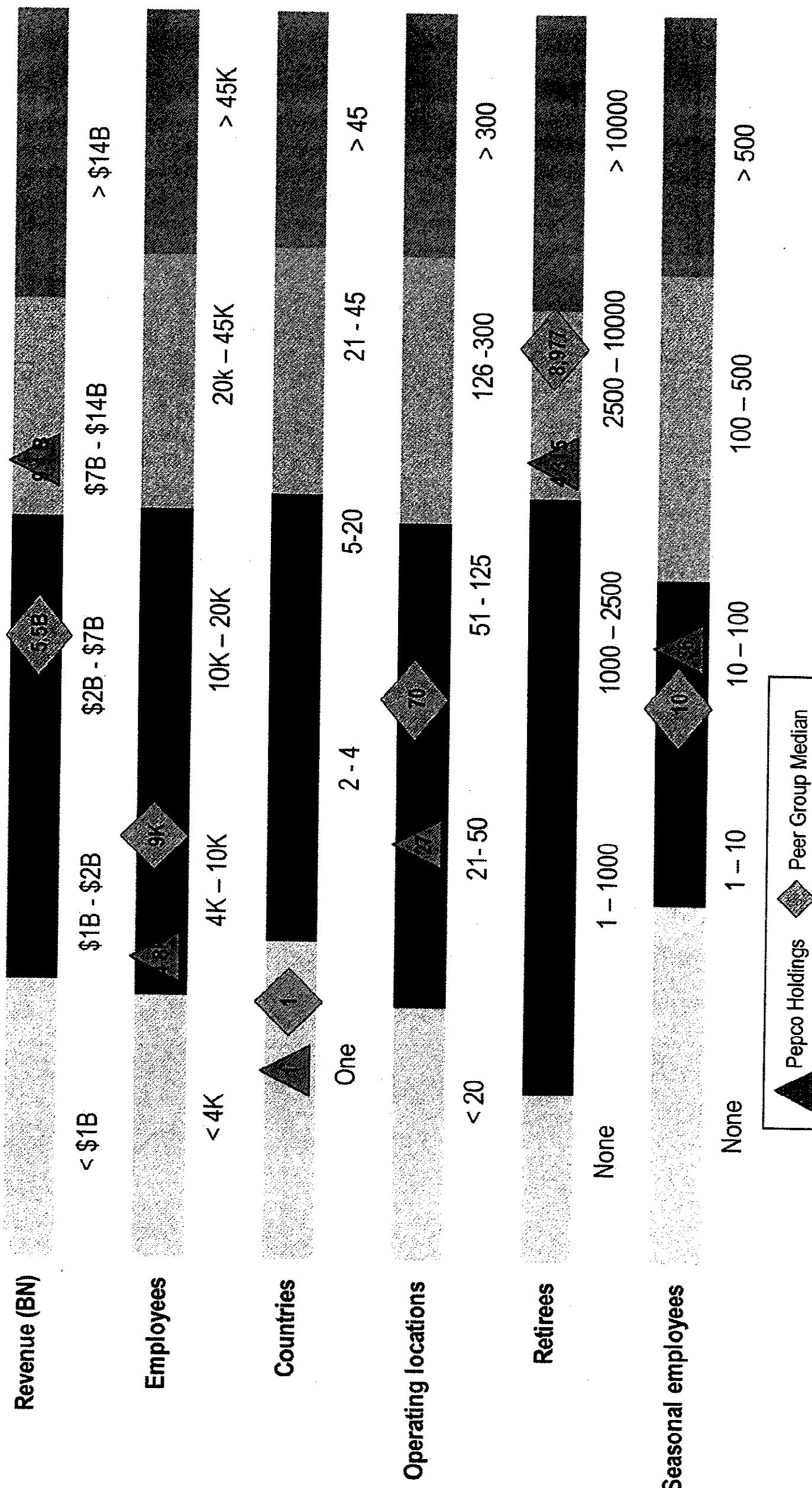
Human Resources

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HR Demographics



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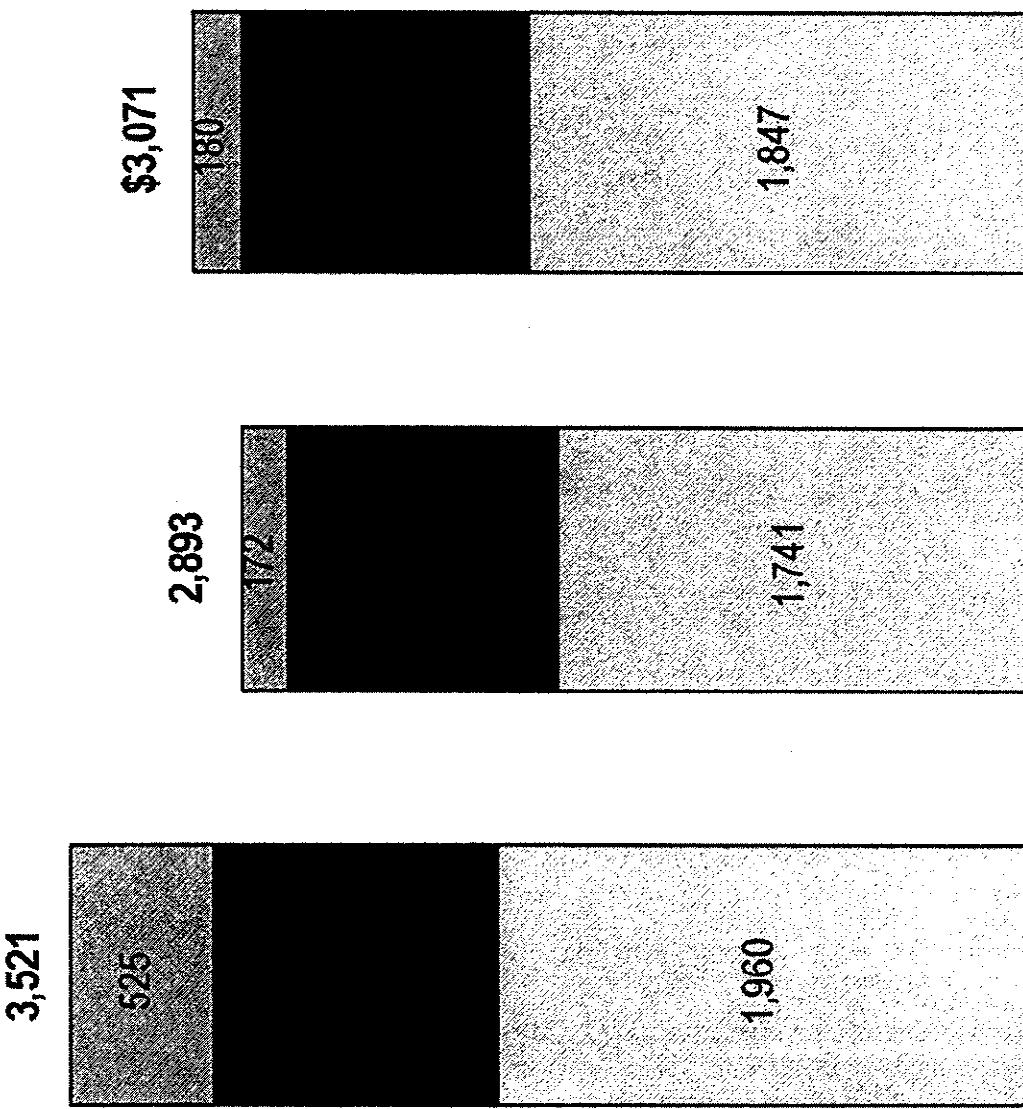
Peer Group HR Participants

- Constellation Energy Group
- Detroit Edison Company (Currently DTE Energy)
- OGE Energy Corporation
- Exelon Corporation
- We Energies
- CMS Energy Corporation (Currently CMS Energy)
- Ontario Power Generation Inc.
- Ameren Corporation

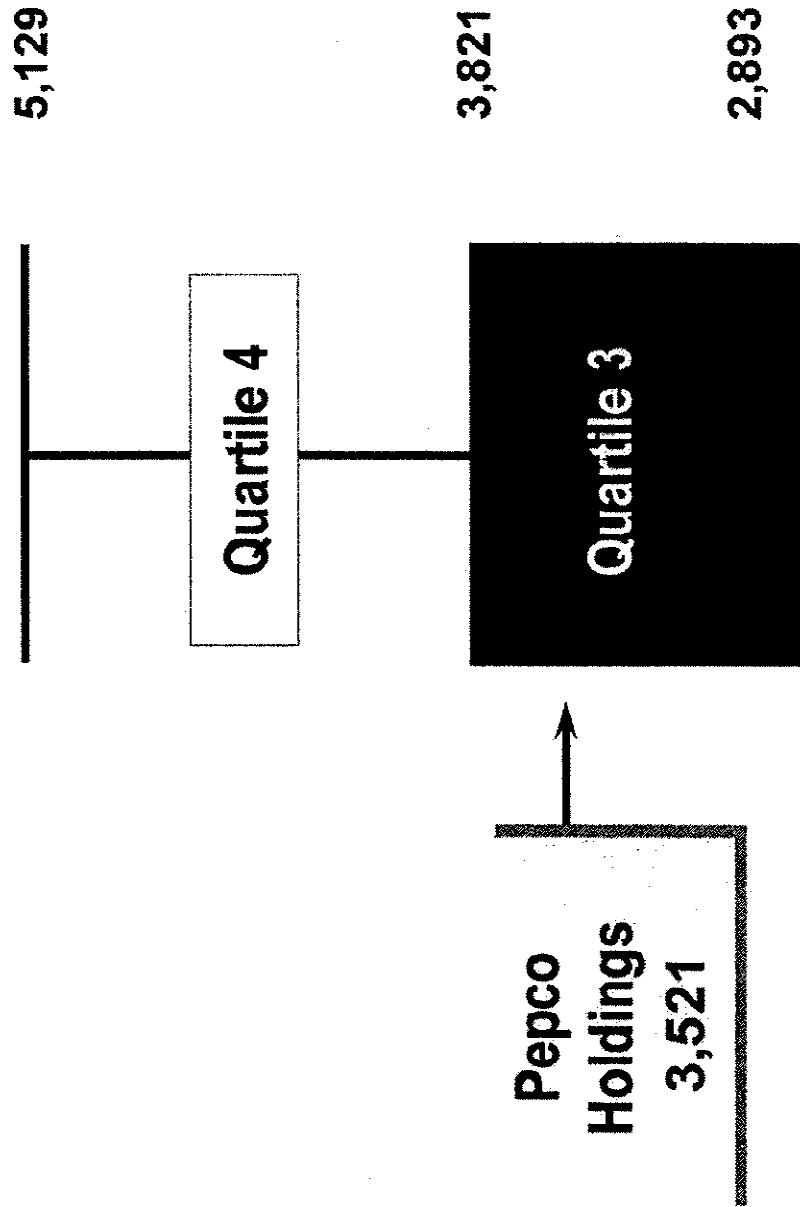


HR Cost per Employee Places Pepco Holdings in the Third Quartile on a Pure Cost Basis

HR Cost (\$) per Employee



Quartile* Cost (\$) per Employee



- Labor
- Outsourcing
- Technology
- Other
- Inflation Adjusted Peer
- Peer Group

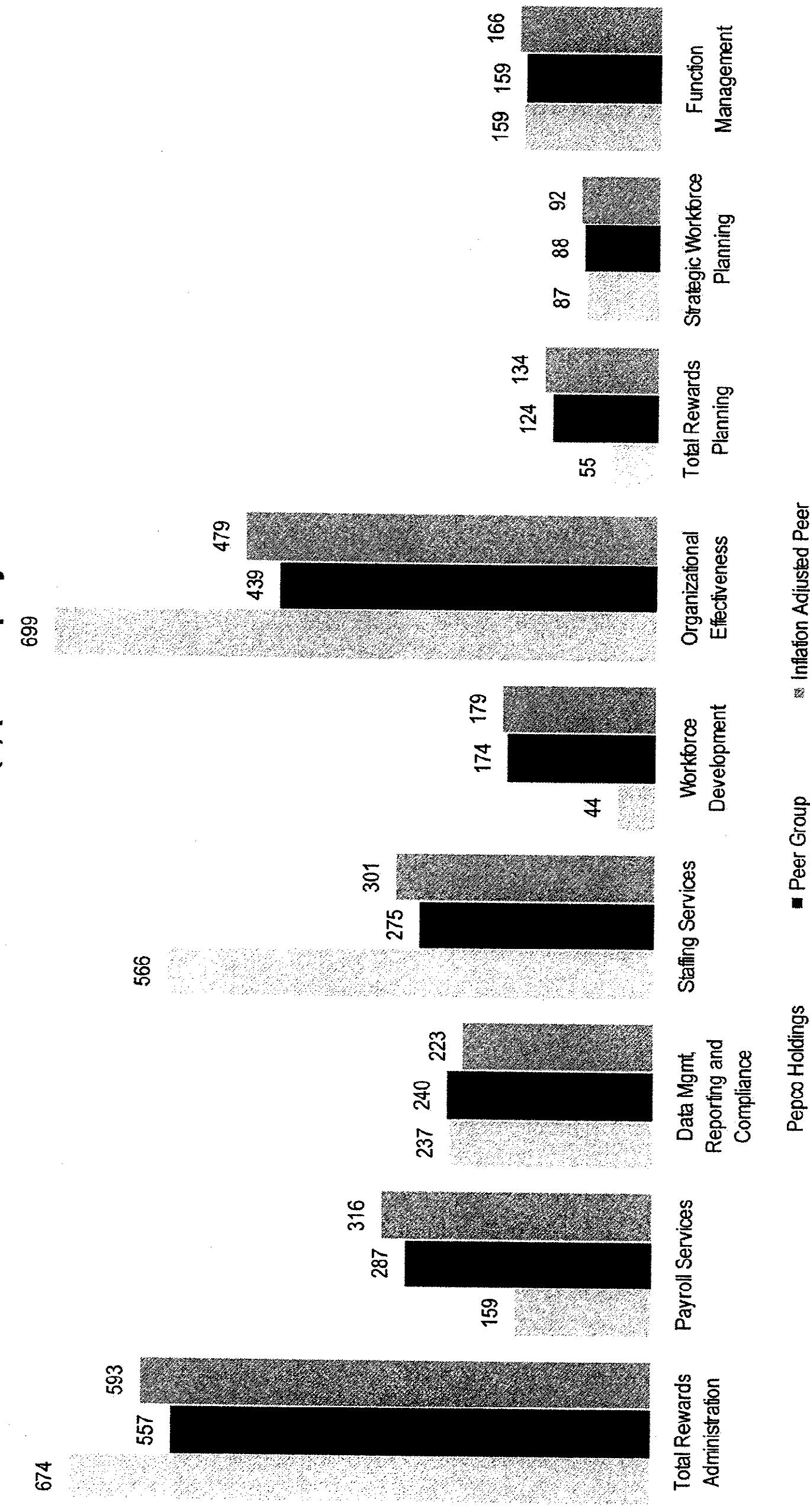
*Quartile breaks are the Peer Group

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Pepco Holdings' HR Process Cost per Employee

Process Cost (\$) per Employee



Note for Staffing Services: Pepco reported 627 hires per 1,000 employees. Peer Group reported 589 hires per 1,000 employees.



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Pepco Holdings HR Staffing and Resource Allocation

HR Staffing (FTEs)

Per Pepco Holdings' Employees

81.0

71.8

36

6%

4%

44

28.6

38.2

40%

47%

Pepco Holdings

Peer Group

Pepco Holdings

Peer Group

Pepco Holdings

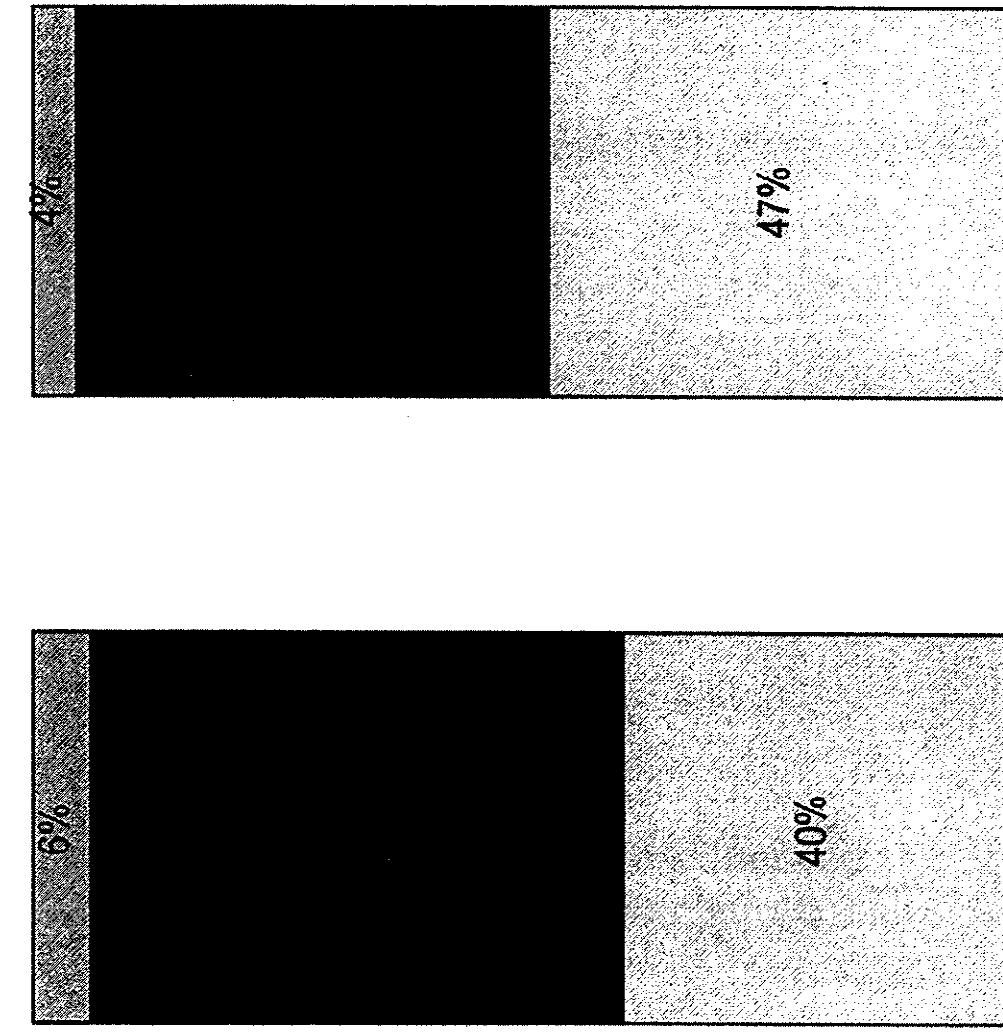
Peer Group

Pepco Holdings

Peer Group

- Transactional
- Employee Life Cycle
- Planning and Strategy
- Function Management

HR Resource Allocation

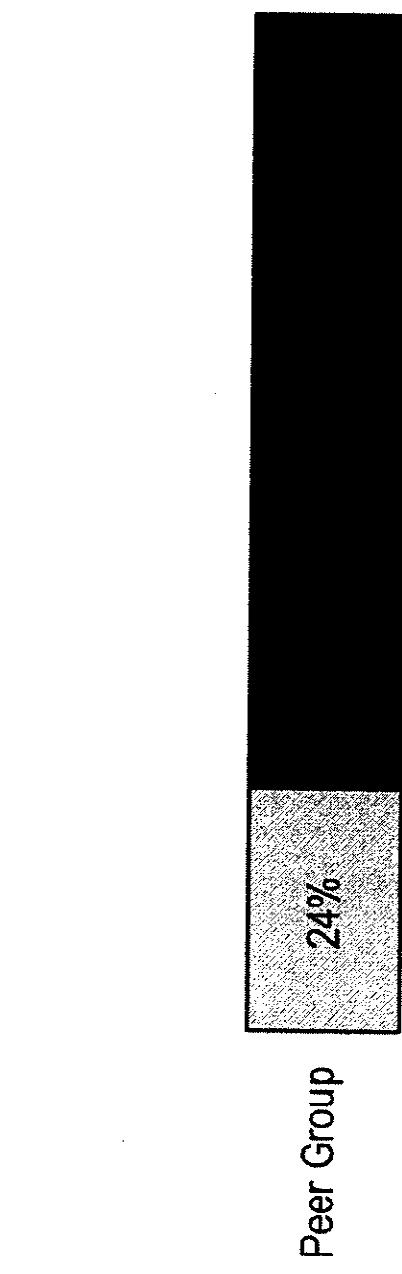


The Hackett Group

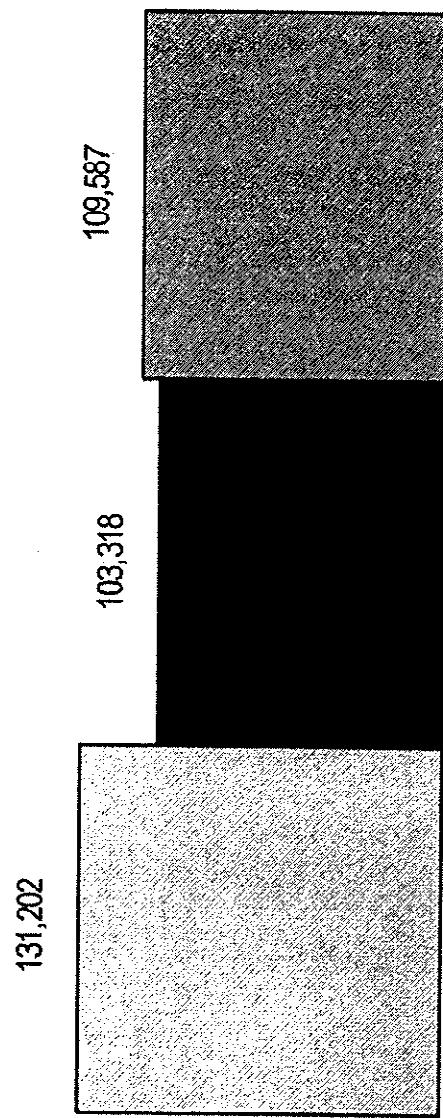
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Staff Mix, Labor Rates and Spans of Control

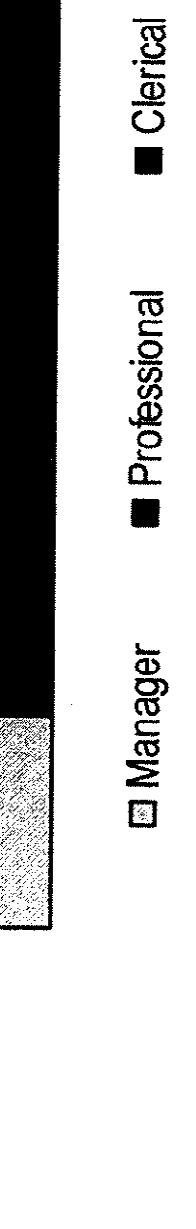
Staff Mix



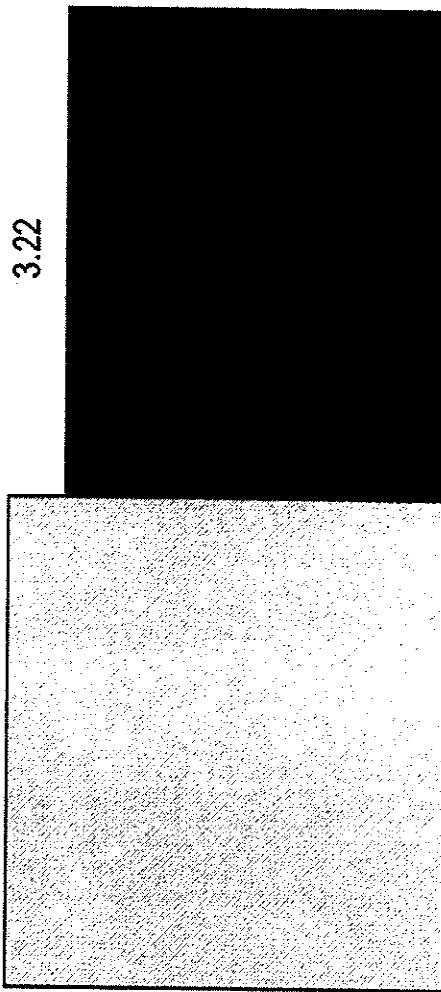
Average Fully Loaded Labor Cost (\$) per FTE



Note: The Hackett Group benchmarked PHI's 'labor cost per FTE' on a national basis. To account for regional influences on wages, Hackett leveraged data from the Department of Labor's Bureau of Labor Statistics. Hackett confirmed that the Northeast region's average wage is 9.9% higher than the national average labor rate.



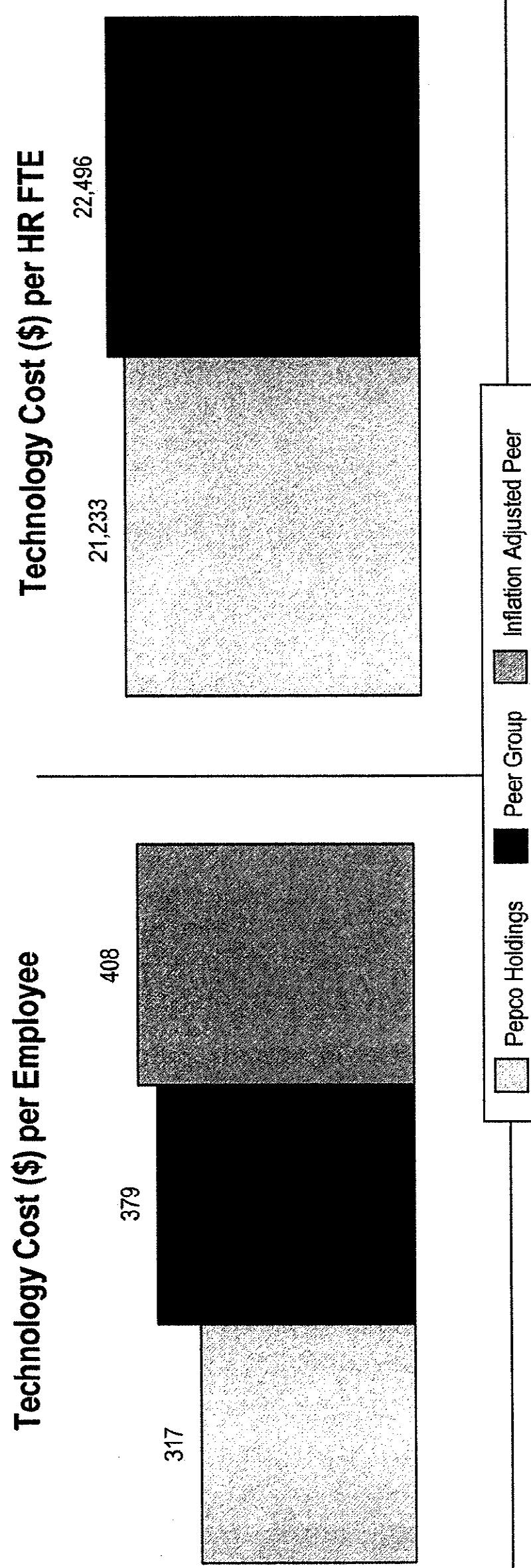
Number of Staff to Managers (Span of Control)



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Technology Costs



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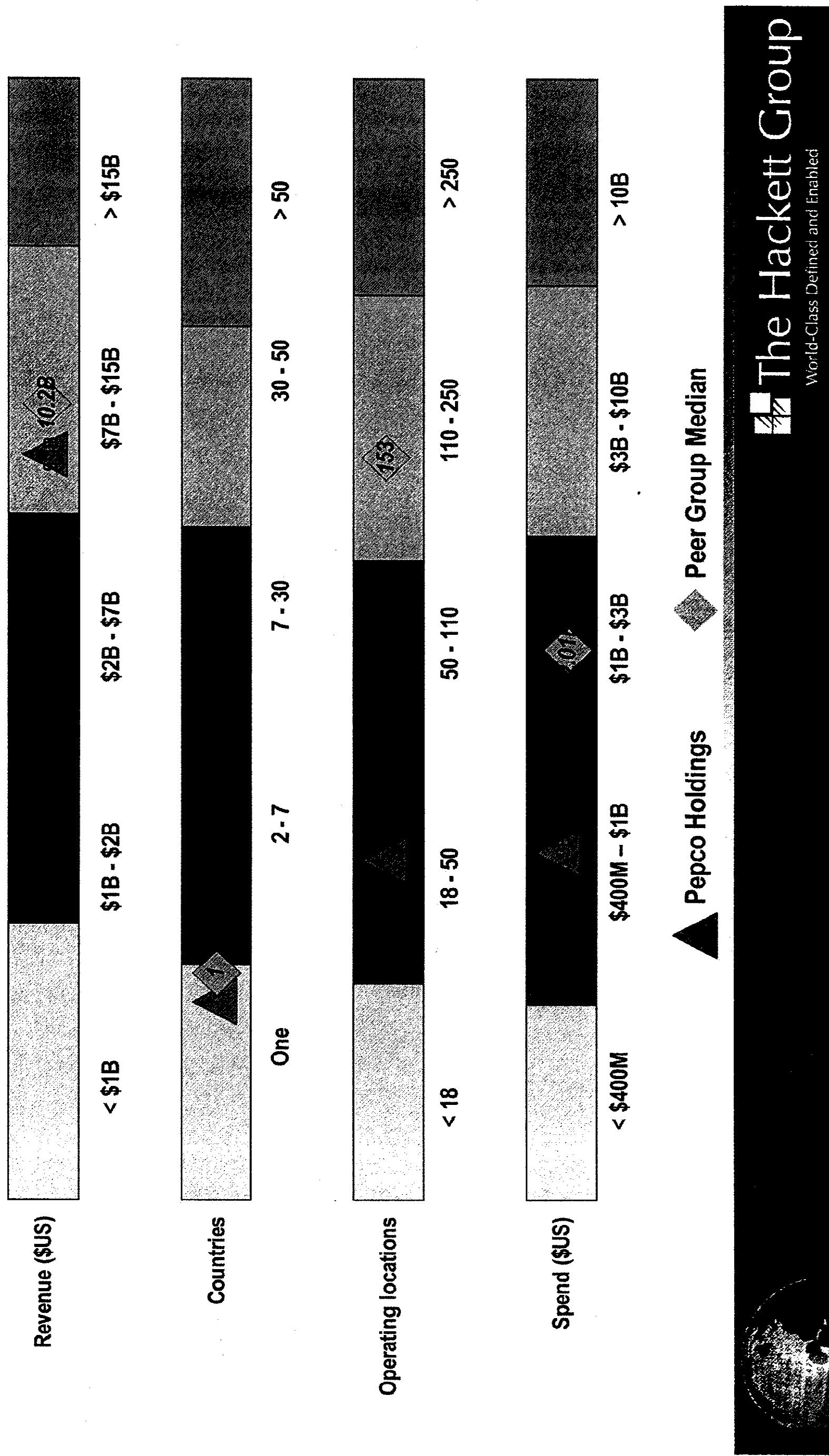
Procurement

 The Hackett Group

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Procurement Demographics – Utilities Peers



Procurement Utilities Peer Group Participants

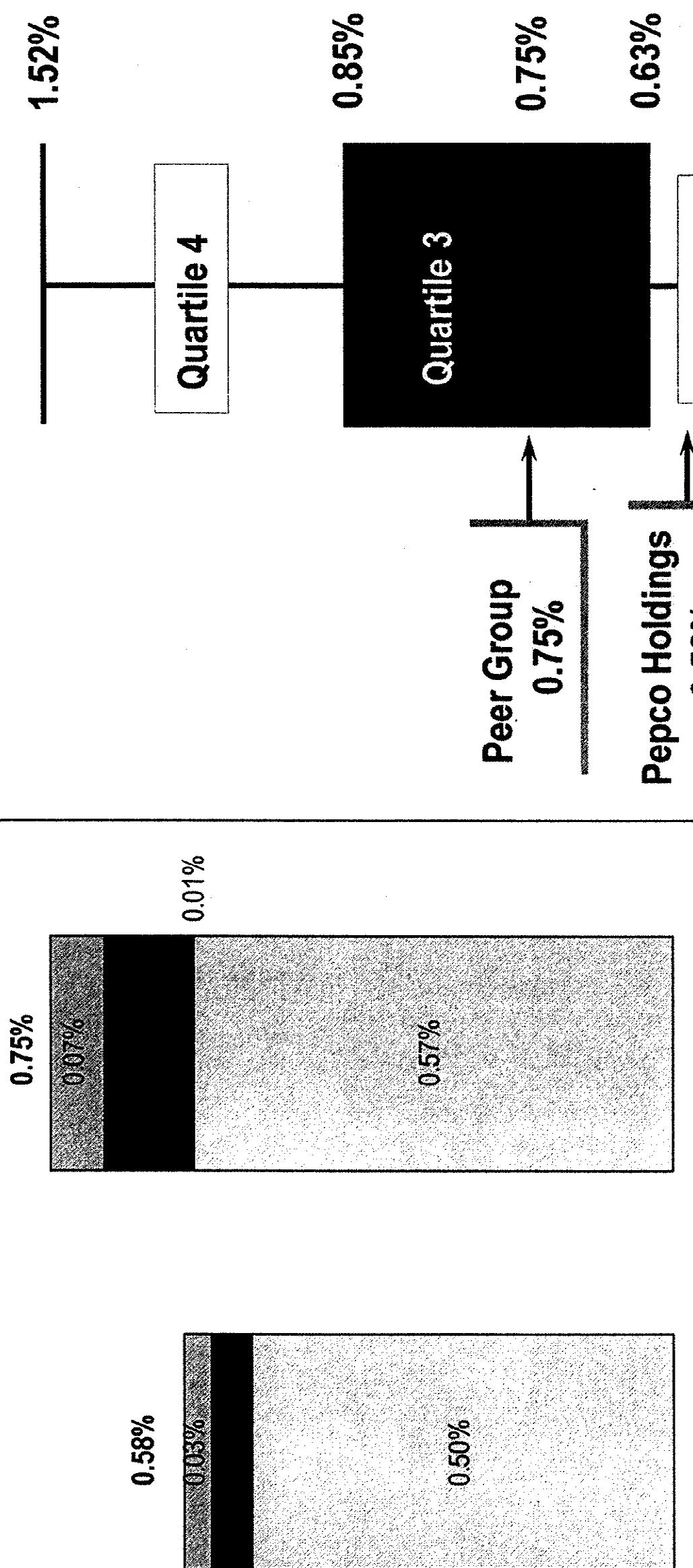
- Entergy Corporation
- Detroit Edison Company (Currently DTE Energy)
- OGE Energy Corporation
- We Energies
- Constellation Energy Group
- Florida Power & Light Company (Currently FPL)
- Ameren Corporation
- Southern California Edison (Currently SCE)
- Exelon Corporation
- National Grid



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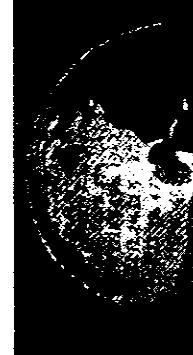
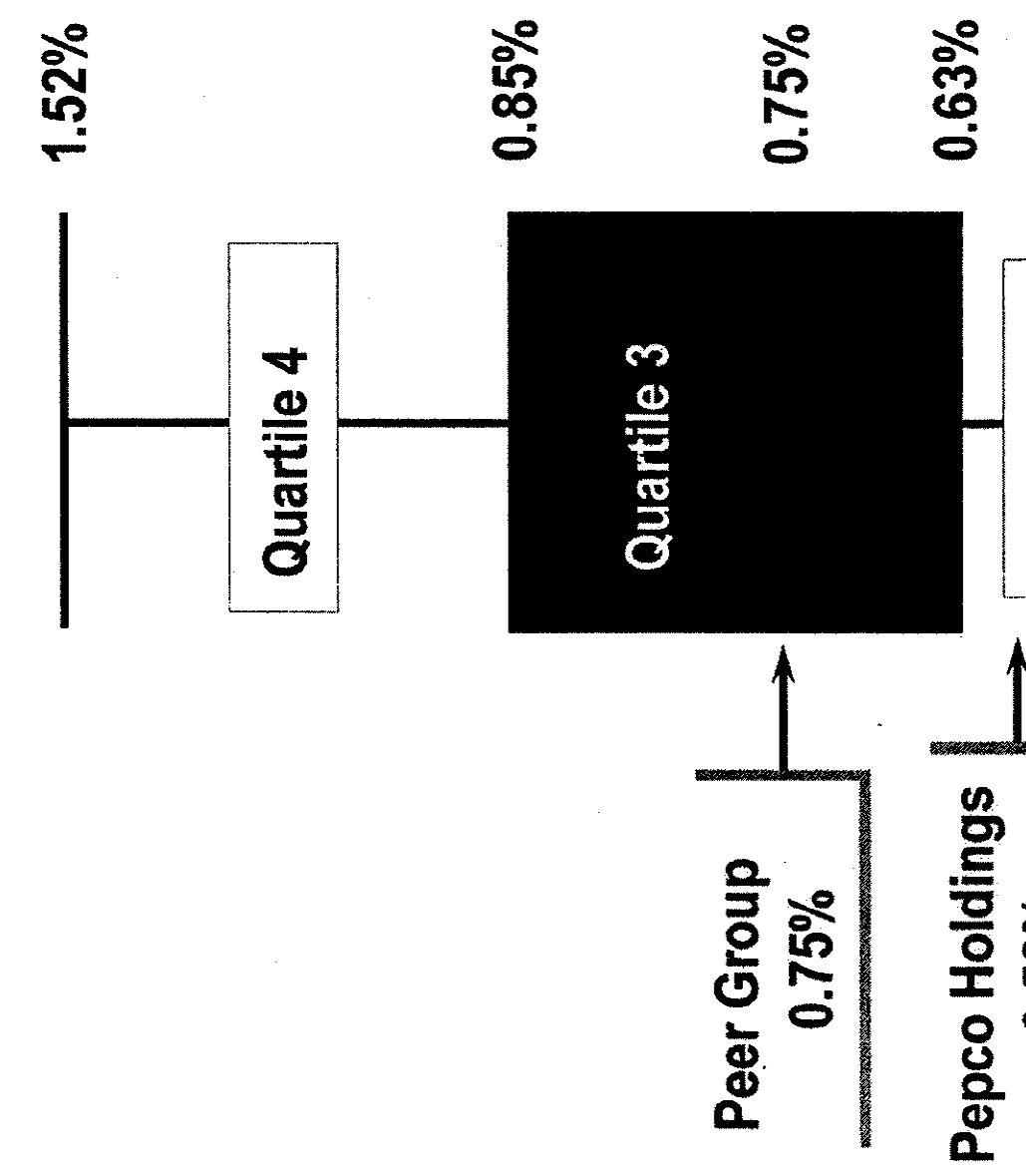
Procurement Cost as a Percentage of Spend by Quartile

Procurement Cost as a % of Spend*



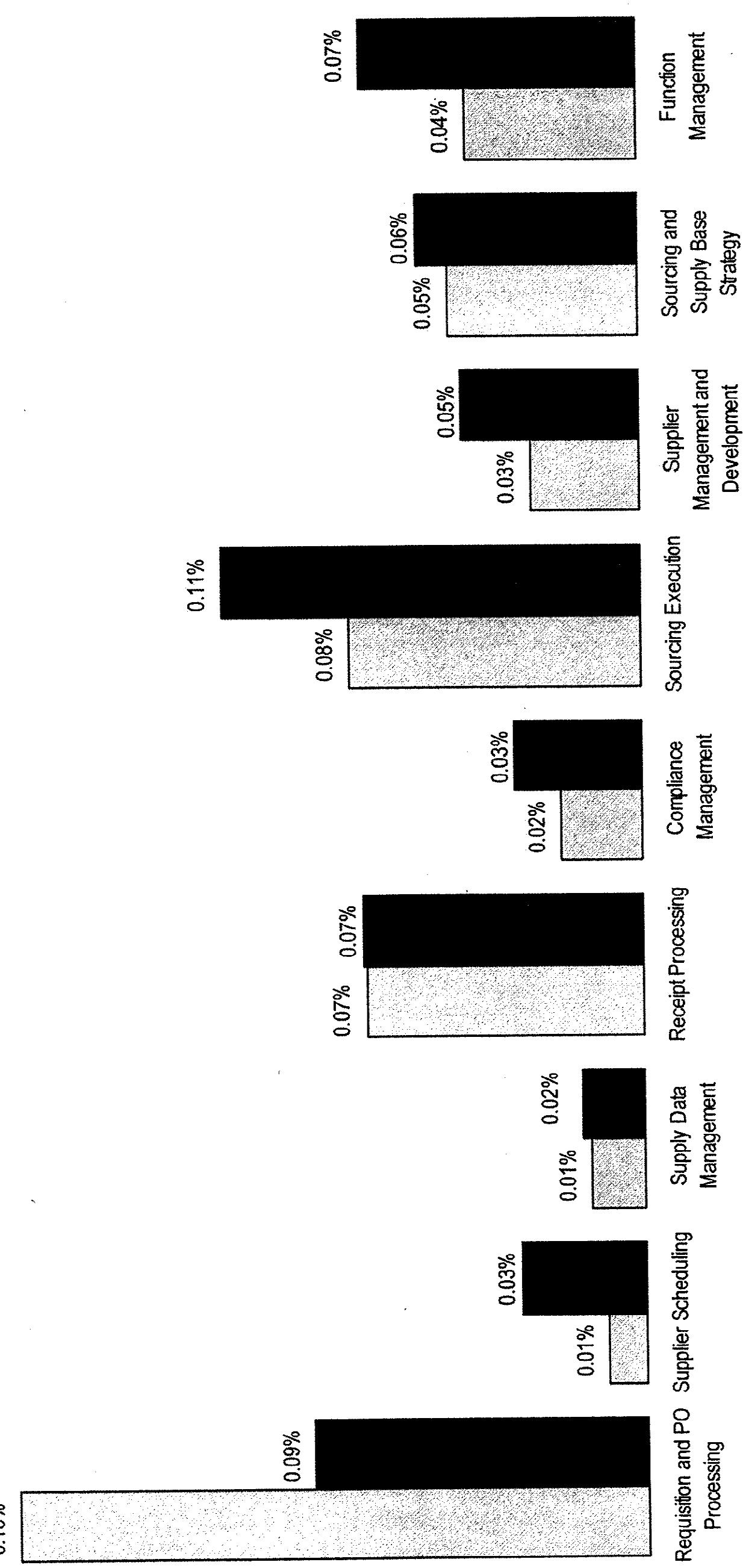
* Above comparisons exclude the investment in Product Development

Procurement Cost as a % of Spend *



Cost as a Percentage of Spend by Process

Procurement Process Cost as a % of Spend



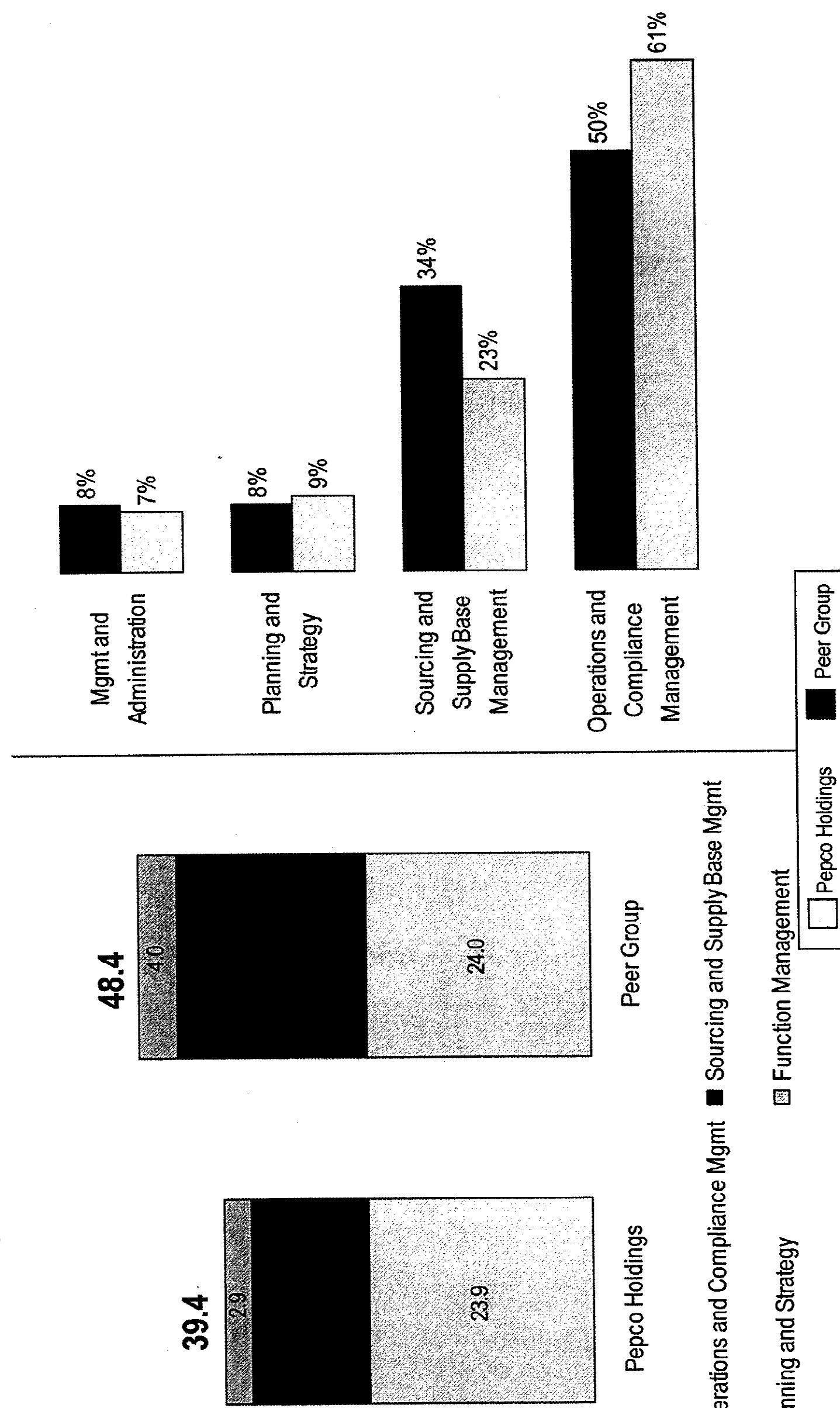
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Procurement Staffing Levels (FTEs) and Resource Allocation

Overall FTEs per Pepco Holdings' Spend

FTE Allocation by Process Groups



Operations and Compliance Mgmt Sourcing and Supply Base Mgmt

Planning and Strategy

Function Management

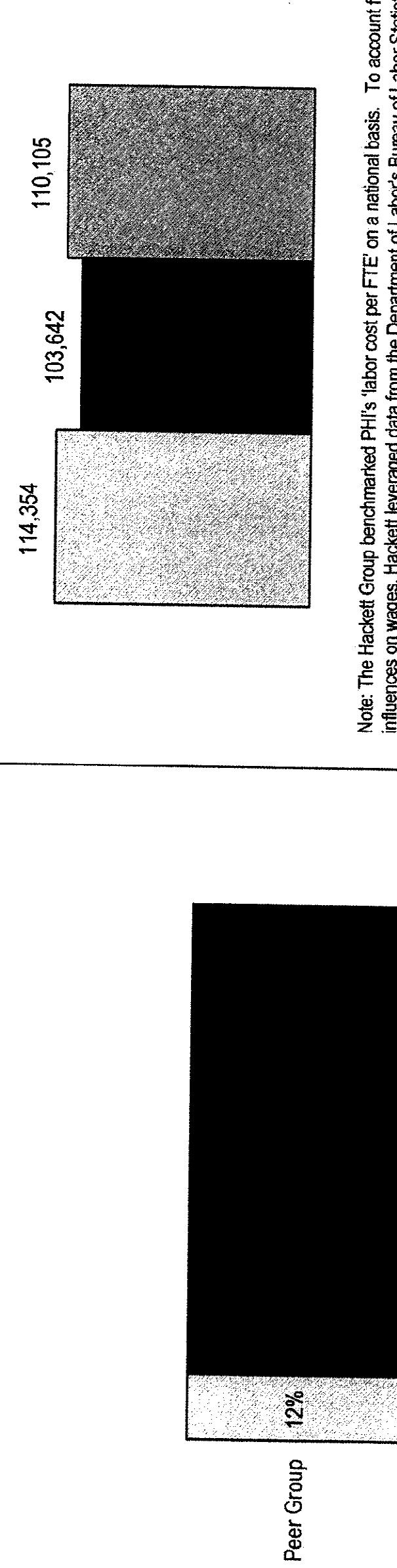
Pepco Holdings Peer Group

 **The Hackett Group**

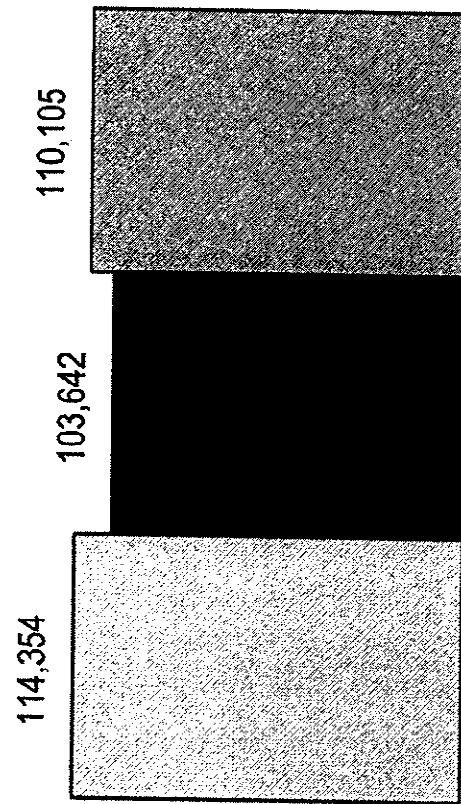
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Staff Mix, Labor Rates and Spans of Control

Staff Mix



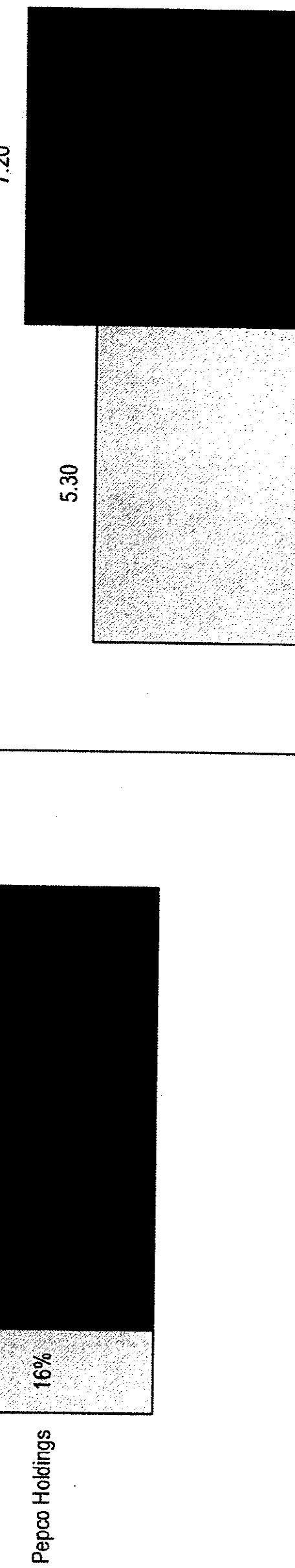
Average Fully Loaded Labor Cost (\$) per FTE



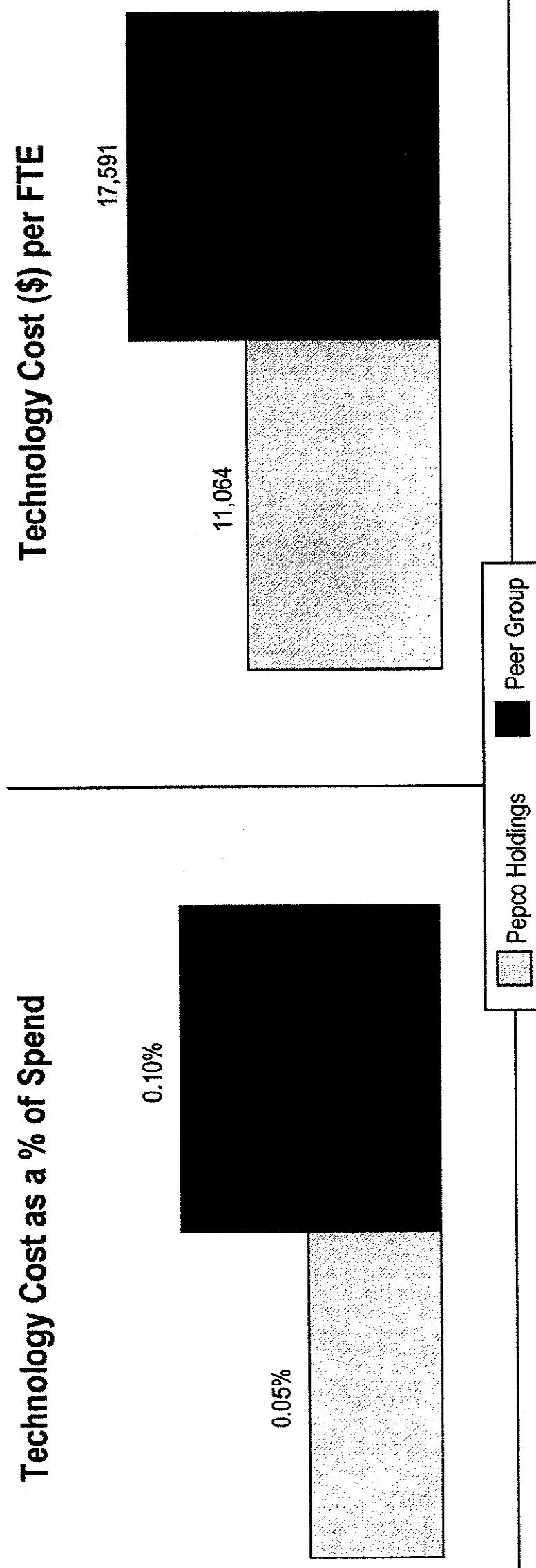
Note: The Hackett Group benchmarked PHI's 'labor cost per FTE' on a national basis. To account for regional influences on wages, Hackett leveraged data from the Department of Labor's Bureau of Labor Statistics. Hackett confirmed that the Northeast region's average wage is 9.9% higher than the national average labor rate.

Manager ■ Professional ■ Clerical

Number of Staff to Managers (Span of Control)



Procurement Technology Cost as a Percentage of Spend and Technology Cost per FTE



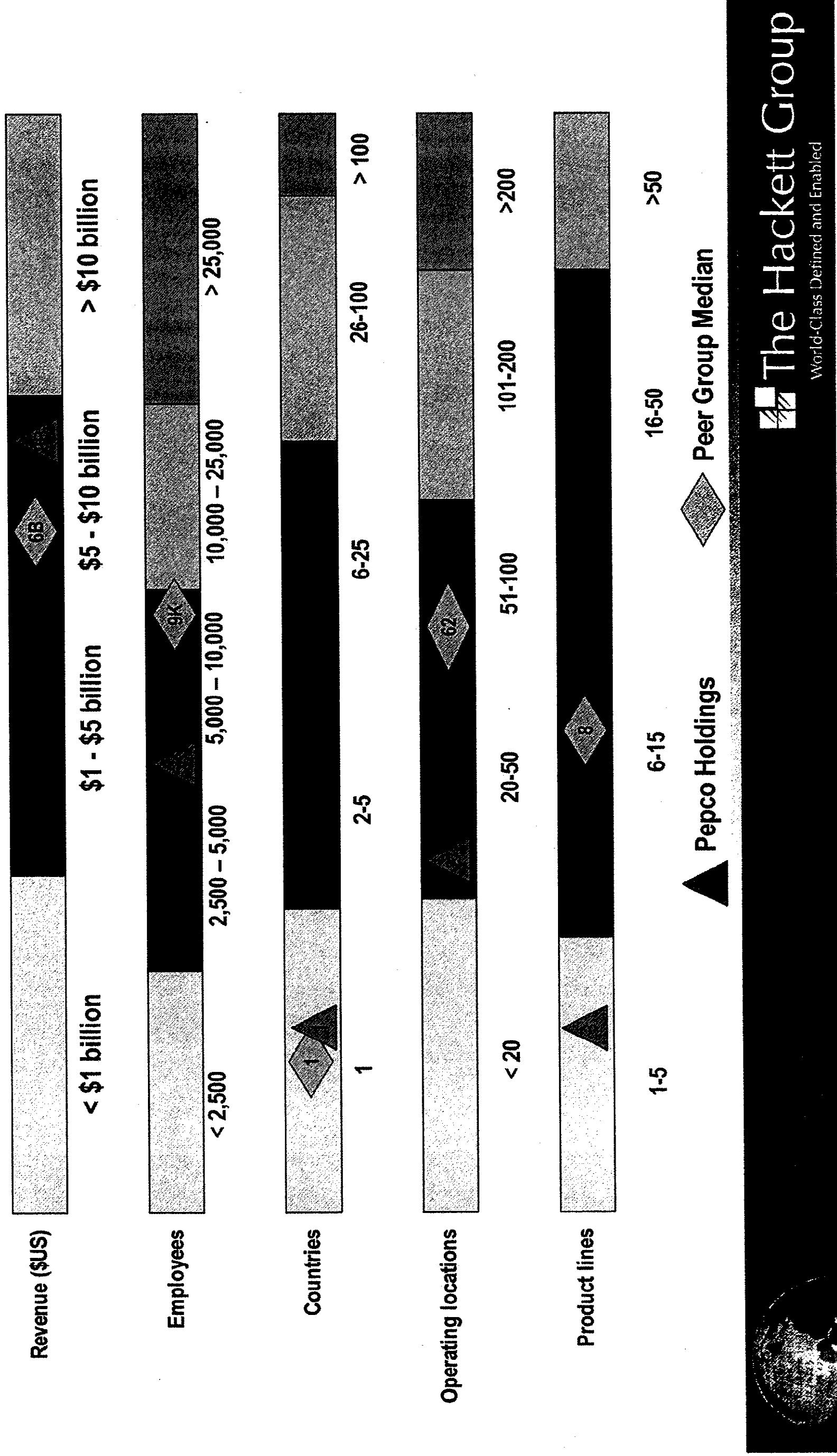
Executive & Corporate Services

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Executive & Corporate Services Demographics



Executive and Corporate Services Participants

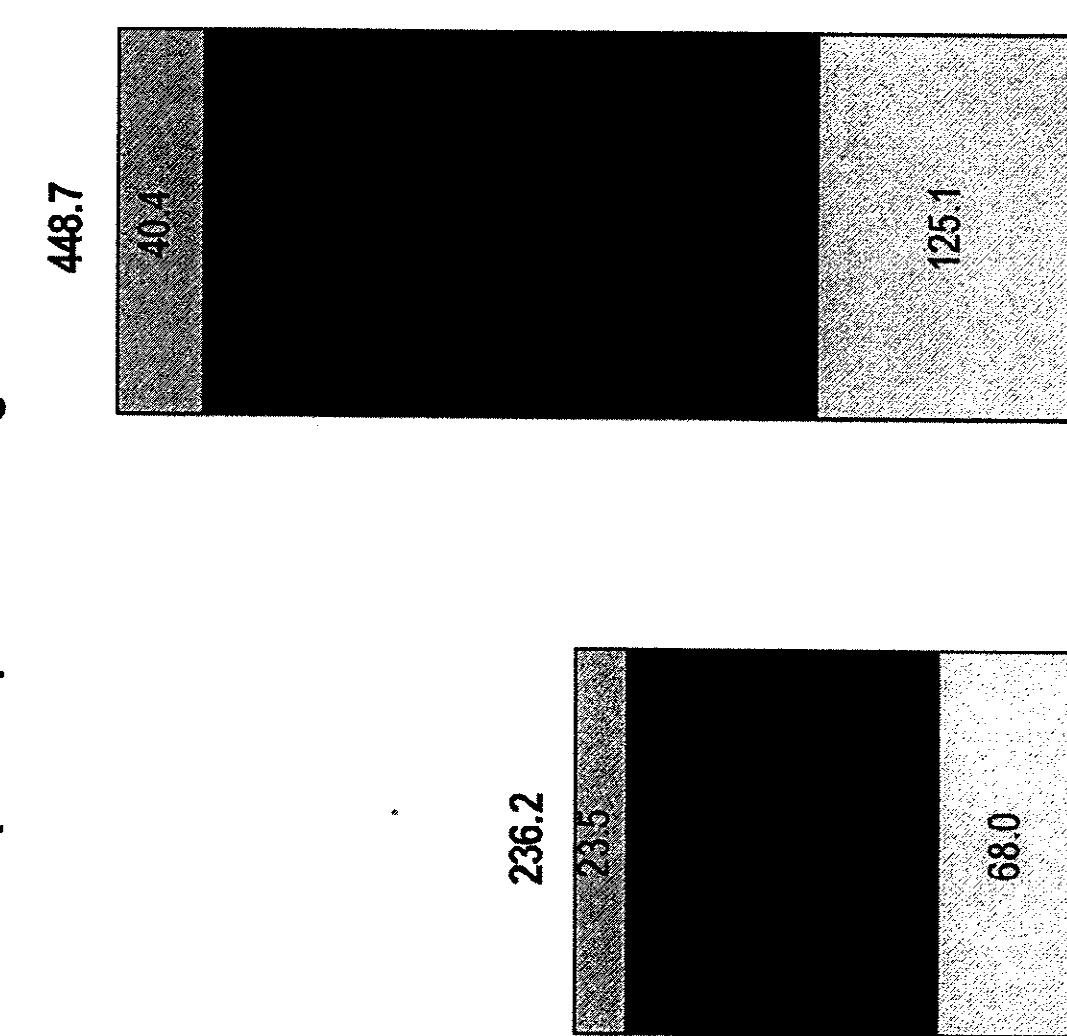
- Detroit Edison Company (Currently DTE Energy)
- OGE Energy Corporation
- Ameren Corporation
- CMS Energy
- We Energies
- Constellation Energy Group
- Florida Power & Light Company (Currently FPL)
- Lower Colorado River Authority (Currently LCRA)



Pepco Holdings' EC S Cost and Staffing for Comparable Processes



Executive and Corporate Services FTEs per Pepco Holdings' Revenue



Pepco Holdings

- Labor
- Outsourcing
- Technology
- Other
- General Administration Management
- Risk & Security Management
- Control & Risk Management
- Executive

* Above comparisons exclude the investment in Litigation & Dispute, Planning & Strategy, and Transportation

Peer Group

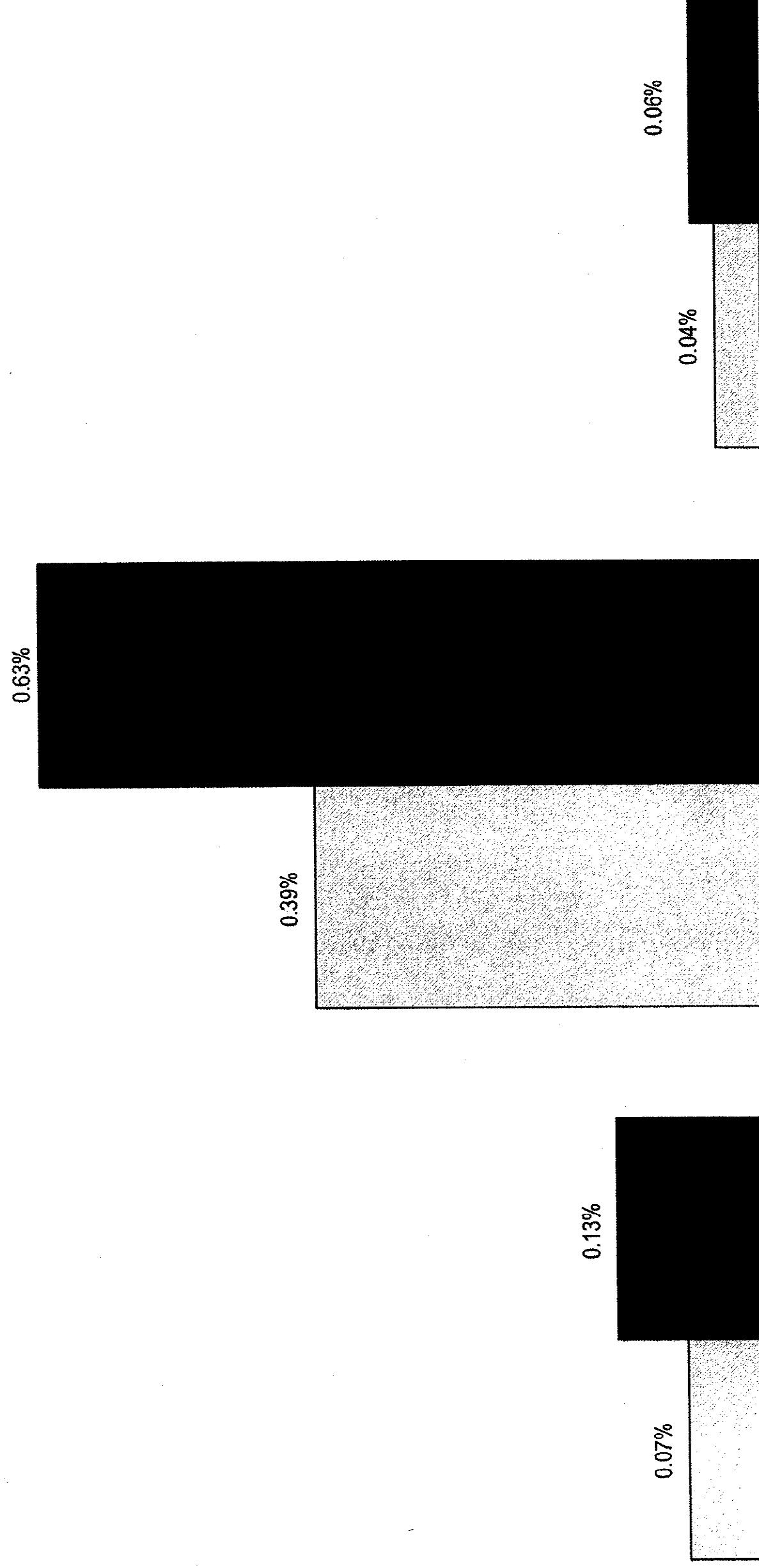
Pepco Holdings

- General Administration Management
- Control & Risk Management
- Executive



ECS Process Cost as a Percentage of Revenue

ECS Process Cost as a % of Revenue



Executive

Control and Risk Management

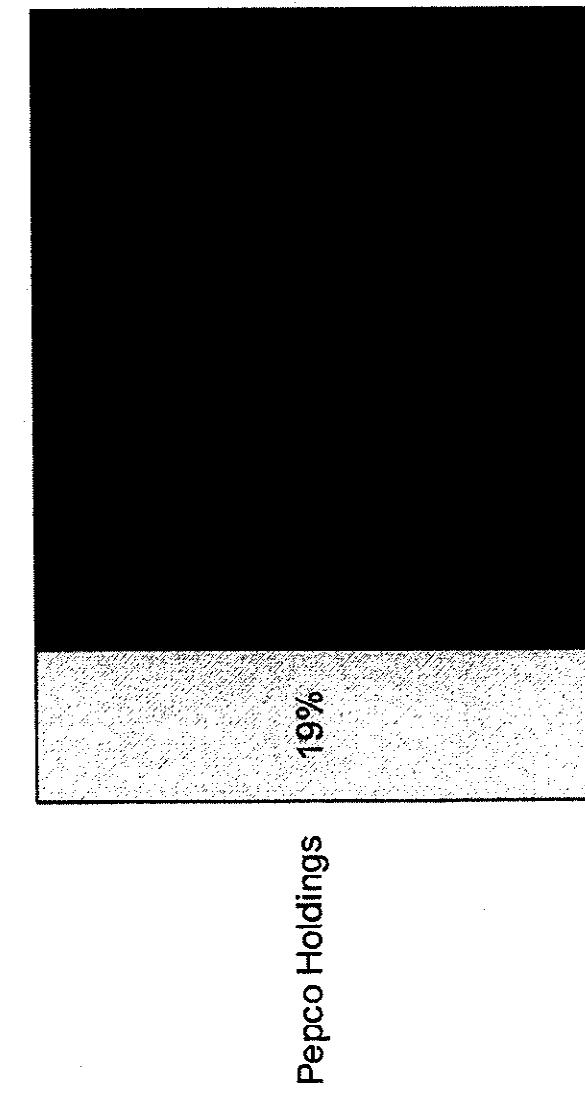
General Administrative Management

Pepco Holdings ■ Peer Group

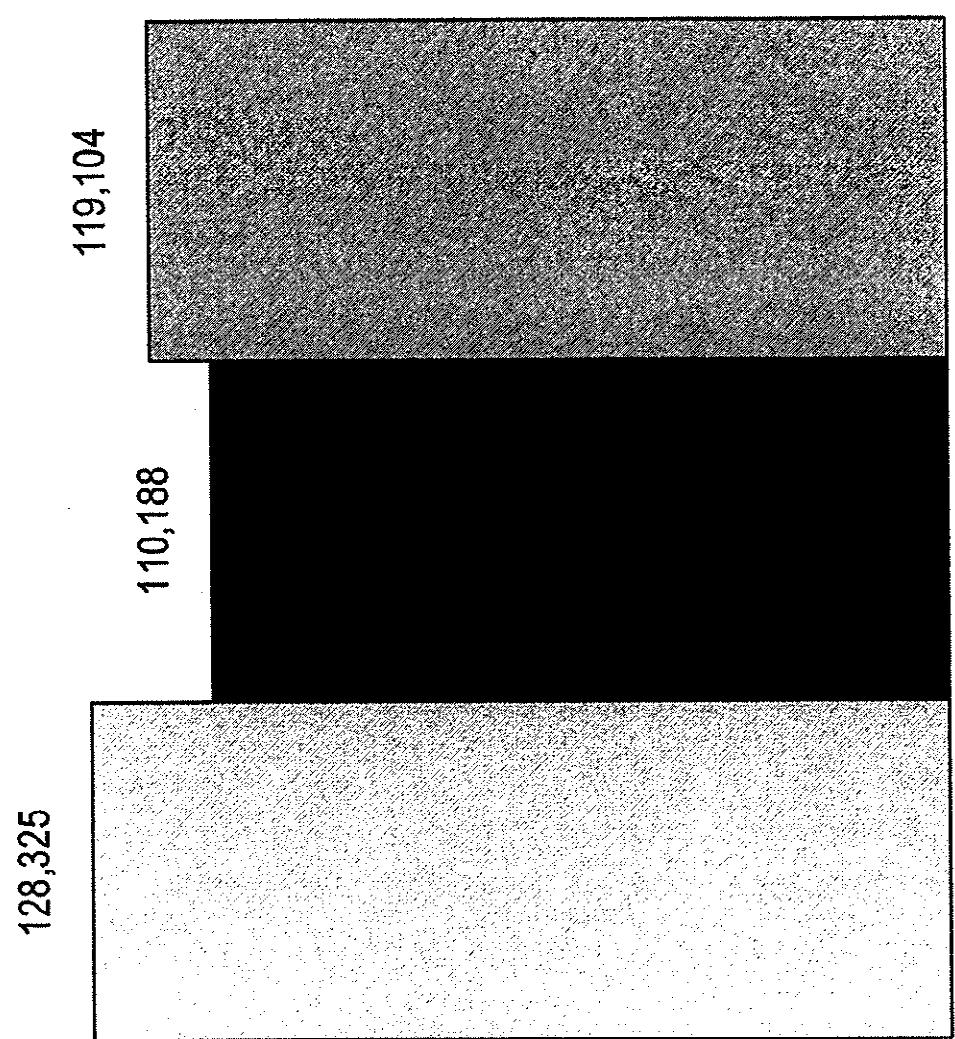


Executive & Corporate Services Staff Mix and Labor Rates

Staff Mix



Average Fully Loaded Labor Cost (\$) per FTE



□ Manager ■ Professional ■ Clerical

Note: The Hackett Group benchmarked PHI's 'labor cost per FTE' on a national basis. To account for regional influences on wages, Hackett leveraged data from the Department of Labor's Bureau of Labor Statistics. Hackett confirmed that the Northeast region's average wage is 9.9% higher than the national average labor rate.

Pepco Holdings Peer Group Inflation Adjusted Peer

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Technology Cost as a Percentage of Revenue and Cost per ECS FTE

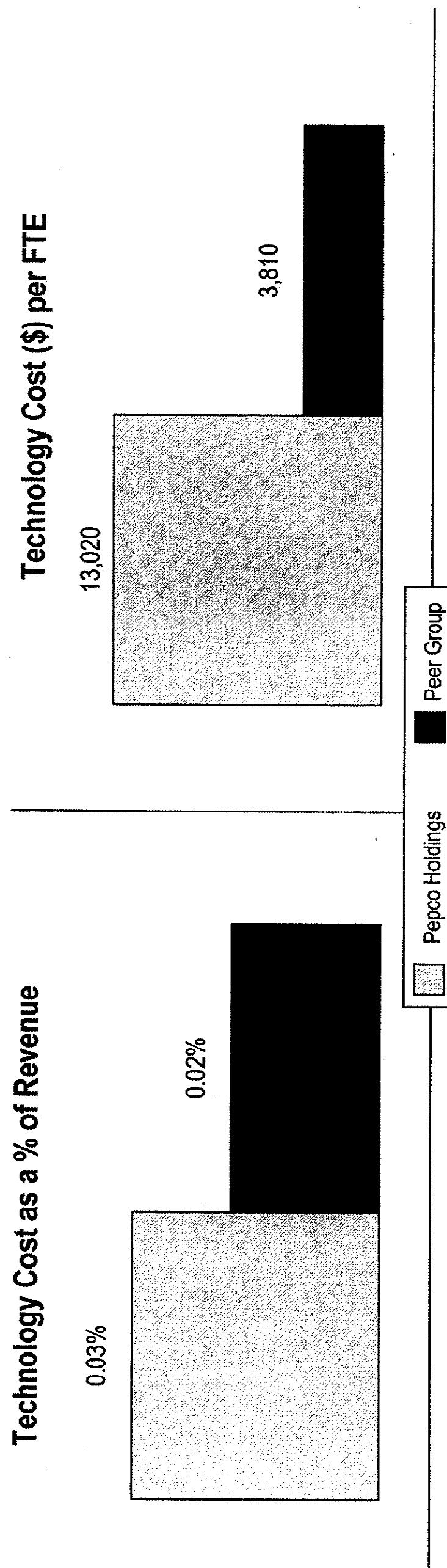


Table of Contents

- **Section One**
 - Benchmark Background & Objectives
- **Section Two**
 - Benchmark Results
- **Section Three**
 - Results by Function
- **Section Four**
 - Appendix



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Methodology

Methodology

- Inflation was adjusted using CPI Index (Bureau of Labor Statistics)
 - Used percent increased (average to average)



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Total Cost as a % of Revenue

Function	Pepco Holdings (LOTO)	Peer Group's Functional Cost (LOTO)
Human Resources	0.18%	0.40%
Procurement	0.06%	0.13%
Information Technology	0.71%	1.60%
Finance	0.81%	0.99%
Executive & Corporate Services	0.60%	0.98%

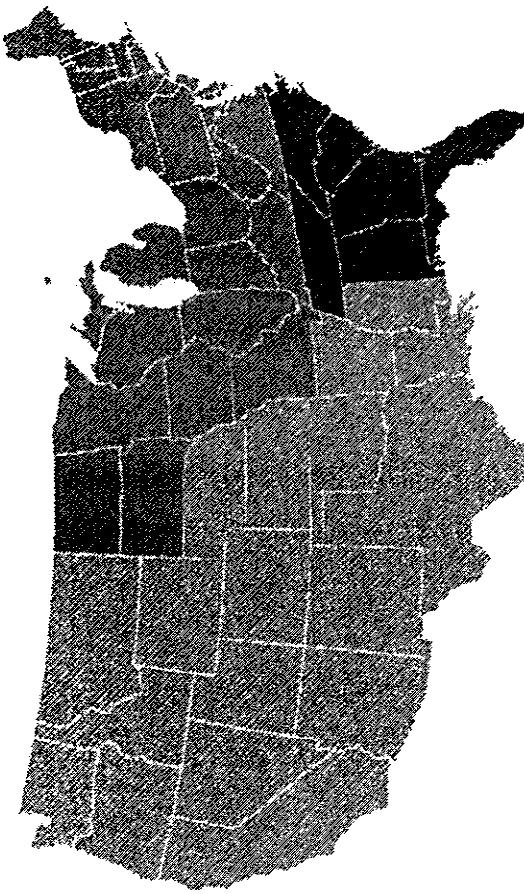
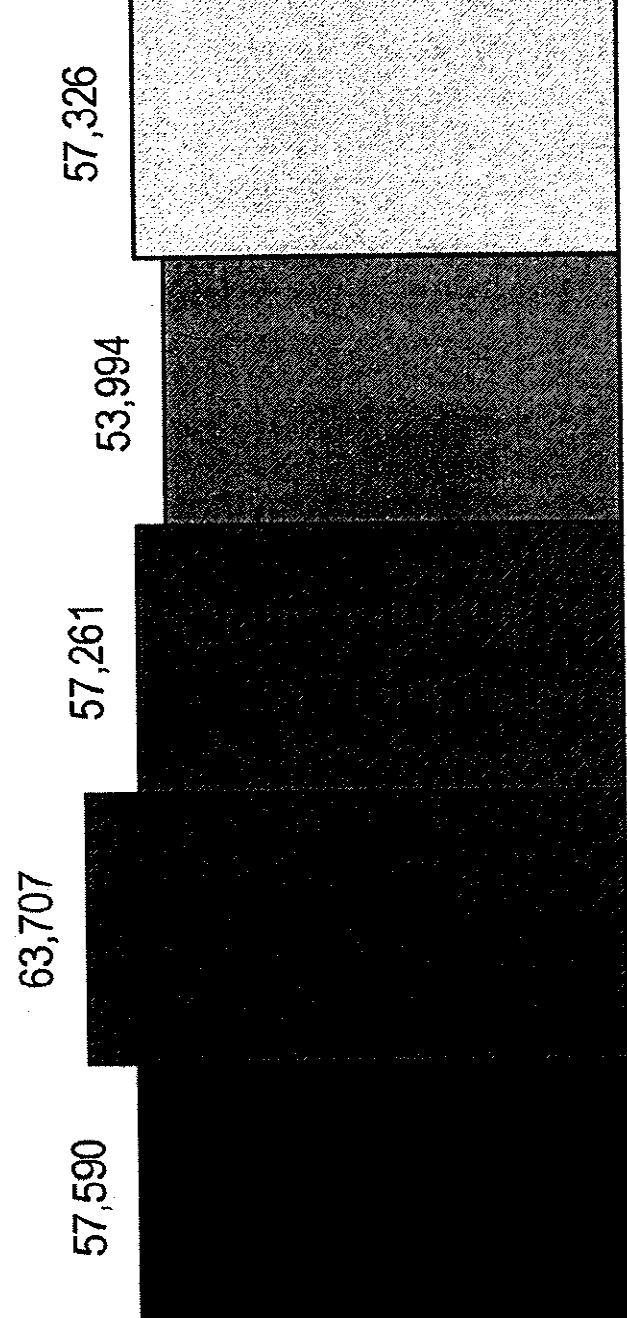
Note: LOTO is defined as 'Labor, Outsourcing, Technology, and Other 'costs.'



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Average Labor Cost by Region According to the Bureau of Labor

Regional Breakdown



Compared
to NE

Southeast Northeast Midwest Southwest West
9.6% Lower N/A 10.1% Lower 15.2% Lower 10.0% Lower

Occupations Included in Average Labor Cost

- Purchasing Agents, Except Wholesale, Retail, & Farm Products
- Compliance Officers, Except Agriculture, Construction, Health & Safety, & Transportation
- Employment, Recruitment, and Placement Specialists
- Compensation, Benefits, and Job Analysis Specialists
- Training and Development Specialists
- Human Resources, Training and Labor Relations Specialists, all Other
- Management Analysts
- Accountants and Auditors
- Budget Analysts
- Credit Analysts
- Financial Analysts
- Financial Examiners
- Financial Specialists, All Other

Note: The information on this slide is not from the Hackett Database. This was collected from the Bureau of Labor Statistics – State Labor Rate – May 2007. Site last updated November 12, 2008

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